UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended June 26, 2004.

OR

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to

Commission file number 0-06217

INTEL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**94-1672743** (I.R.S. Employer Identification No.)
2200 Mission College Boulevard, Santa Clara, California (Address of principal executive offices)	**95052-8119** (Zip Code)

(408) 765-8080
(Registrant's telephone number, including area code)

N/A
(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Yes ☒ No ☐

Shares outstanding of the Registrant's common stock:

Class	Outstanding at July 23, 2004
Common stock, $0.001 par value	6,415 million

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTEL CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF INCOME (Unaudited)

(In Millions, Except Per Share Amounts)	Three Months Ended June 26, 2004	Three Months Ended June 28, 2003	Six Months Ended June 26, 2004	Six Months Ended June 28, 2003
Net revenue	**$ 8,049**	**$ 6,816**	**$ 16,140**	**$ 13,567**
Cost of sales	3,269	3,348	6,490	6,587
Gross margin	**4,780**	**3,468**	**9,650**	**6,980**
Research and development	1,186	1,029	2,381	2,048
Marketing, general and administrative	1,170	1,073	2,311	2,091
Impairment of goodwill	—	6	—	6
Amortization of acquisition-related intangibles and costs	43	84	101	168
Operating expenses	**2,399**	**2,192**	**4,793**	**4,313**
Operating income	**2,381**	**1,276**	**4,857**	**2,667**
Gains (losses) on equity securities, net	(8)	(58)	11	(185)
Interest and other, net	47	53	96	105
Income before taxes	**2,420**	**1,271**	**4,964**	**2,587**
Provision for taxes	663	375	1,477	776
Net income	**$ 1,757**	**$ 896**	**$ 3,487**	**$ 1,811**
Basic earnings per common share	**$ 0.27**	**$ 0.14**	**$ 0.54**	**$ 0.28**
Diluted earnings per common share	**$ 0.27**	**$ 0.14**	**$ 0.53**	**$ 0.27**
Cash dividends declared per common share	**$ —**	**$ —**	**$ 0.08**	**$ 0.04**
Weighted average common shares outstanding	**6,449**	**6,525**	**6,464**	**6,540**
Weighted average common shares outstanding, assuming dilution	**6,558**	**6,580**	**6,591**	**6,595**

See accompanying notes.

INTEL CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS (Unaudited)

(In Millions)	June 26, 2004	December 27, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 7,153	$ 7,971
Short-term investments	7,111	5,568
Trading assets	2,708	2,625
Accounts receivable, net	3,183	2,960
Inventories	3,223	2,519
Deferred tax assets	1,070	969
Other current assets	310	270
Total current assets	**24,758**	**22,882**
Property, plant and equipment, net of accumulated depreciation of $23,560 ($22,031 at December 27, 2003)	**16,007**	**16,661**
Marketable strategic equity securities	**582**	**514**
Other long-term investments	**2,238**	**1,866**
Goodwill	**3,730**	**3,705**
Other assets	**1,357**	**1,515**
Total assets	**$ 48,672**	**$ 47,143**
Liabilities and stockholders' equity		
Current liabilities:		
Short-term debt	$ 216	$ 224
Accounts payable	1,900	1,660
Accrued compensation and benefits	1,288	1,559
Accrued advertising	814	716
Deferred income on shipments to distributors	640	633
Other accrued liabilities	1,251	1,302
Income taxes payable	1,429	785
Total current liabilities	**7,538**	**6,879**
Long-term debt	**898**	**936**
Deferred tax liabilities	**1,643**	**1,482**
Commitments and contingencies		
Stockholders' equity:		
Preferred stock	—	—
Common stock and capital in excess of par value	6,395	6,754
Acquisition-related unearned stock compensation	(9)	(20)
Accumulated other comprehensive income	130	96
Retained earnings	32,077	31,016
Total stockholders' equity	**38,593**	**37,846**
Total liabilities and stockholders' equity	**$ 48,672**	**$ 47,143**

See accompanying notes.

INTEL CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

(In Millions)	Six Months Ended June 26, 2004	Six Months Ended June 28, 2003
Cash and cash equivalents, beginning of period	**$ 7,971**	**$ 7,404**
Cash flows provided by (used for) operating activities:		
Net income	3,487	1,811
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,291	2,307
Impairment of goodwill	—	6
Amortization of intangibles and other acquisition-related costs	167	232
(Gains) losses on equity securities, net	(11)	185
Net loss on retirements and impairments of property, plant and equipment	56	124
Deferred taxes	41	116
Tax benefit from employee stock plans	196	85
Changes in assets and liabilities:		
Trading assets	(126)	(470)
Accounts receivable	(223)	(279)
Inventories	(703)	123
Accounts payable	240	60
Accrued compensation and benefits	(275)	(203)
Income taxes payable	644	302
Other assets and liabilities	50	(40)
Total adjustments	2,347	2,548
Net cash provided by operating activities	**5,834**	**4,359**
Cash flows provided by (used for) investing activities:		
Additions to property, plant and equipment	(1,706)	(1,877)
Acquisitions, net of cash acquired	(33)	—
Purchases of available-for-sale investments	(8,793)	(3,647)
Maturities and sales of available-for-sale investments	6,851	4,256
Other investing activities	(15)	(11)
Net cash used for investing activities	**(3,696)**	**(1,279)**
Cash flows provided by (used for) financing activities:		
Increase (decrease) in short-term debt, net	32	(180)
Repayments of debt	(7)	(4)
Proceeds from sales of shares through employee stock plans and other	552	353
Repurchase and retirement of common stock	(3,016)	(2,009)
Payment of dividends to stockholders	(517)	(262)
Net cash used for financing activities	**(2,956)**	**(2,102)**
Net increase (decrease) in cash and cash equivalents	**(818)**	**978**
Cash and cash equivalents, end of period	**$ 7,153**	**$ 8,382**
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 21	$ 14
Income taxes, net of refund	$ 601	$ 270

See accompanying notes.

Note 1: Basis of Presentation

The accompanying interim consolidated condensed financial statements of Intel Corporation have been prepared in conformity with United States (U.S.) generally accepted accounting principles, consistent in all material respects with those applied in the company's Annual Report on Form 10-K for the year ended December 27, 2003. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and judgments that affect the amounts reported in the financial statements and accompanying notes. The accounting estimates that require management's most difficult and subjective judgments include: the assessment of recoverability of goodwill and property, plant, and equipment; the valuation of non-marketable equity securities and inventory; and the recognition and measurement of income tax assets and liabilities. The actual results experienced by the company may differ from management's estimates.

The interim financial information is unaudited, but reflects all normal adjustments that are, in the opinion of management, necessary to provide a fair statement of results for the interim periods presented. Certain amounts reported in previous periods have been reclassified to conform to the current presentation. The interim financial statements should be read in connection with the financial statements in the company's Annual Report on Form 10-K for the year ended December 27, 2003.

Note 2: Recent Accounting Pronouncement

In March 2004, the Financial Accounting Standards Board (FASB) approved the consensus reached on the Emerging Issues Task Force (EITF) Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The objective of this Issue is to provide guidance for identifying impaired investments. EITF 03-1 also provides new disclosure requirements for investments that are deemed to be temporarily impaired. The accounting provisions of EITF 03-1 are effective for all reporting periods beginning after June 15, 2004, while the disclosure requirements are effective only for annual periods ending after June 15, 2004. The company has evaluated the impact of the adoption of EITF 03-1 and does not believe the impact will be significant to the company's overall results of operations or financial position.

Note 3: Employee Equity Incentive Plans

In May 2004, stockholder approval was obtained for the 2004 Equity Incentive Plan (the 2004 Plan). Under the 2004 Plan, 240 million shares of common stock were made available for issuance during the two-year period ending June 30, 2006. Under the 2004 Plan, options to purchase shares may be granted to all employees and non-employee directors. Other equity incentive award types, such as restricted stock, stock units and stock appreciation rights, may also be used. The 2004 Plan also allows for performance-based vesting for equity incentive awards. The Intel Corporation 1984 Stock Option Plan expired in May 2004, and the Intel Corporation 1997 Stock Option Plan was terminated upon stockholder approval of the 2004 Plan. Shares previously authorized for issuance under these plans are no longer available for future grants. Options granted by the company under the 2004 Plan will generally expire seven years from the grant date. Options granted under the company's previous stock option plans generally expire ten years from the grant date. Options granted to existing and newly hired employees generally vest over a four year period from the date of grant. Certain grants to key employees expire ten years from the date of grant and have delayed vesting generally beginning six years from the date of grant. In addition to the 2004 Plan, the company also has a Stock Participation Plan, under which eligible employees may purchase shares of Intel's common stock at 85% of the market price at specific, predetermined dates.

Intel continues to account for its stock option plans under the intrinsic value recognition and measurement principles of APB Opinion No. 25, “Accounting for Stock Issued to Employees,” and related interpretations. The exercise price of options is equal to the market price of Intel common stock (defined as the average of the high and low trading prices reported by The NASDAQ Stock Market*) on the date of grant. Accordingly, no stock-based compensation, other than acquisition related compensation, is recognized in net income. In prior years, Intel also assumed the stock option plans and the outstanding options of certain acquired companies. No additional stock options will be granted under these assumed plans.

The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of SFAS No. 123, “Accounting for Stock-Based Compensation,” as amended, to options granted under the company’s stock option plans and rights to acquire stock granted under the company’s Stock Participation Plan, collectively called “options.” For purposes of this pro forma disclosure, the value of the options is estimated using a Black-Scholes option pricing model and amortized ratably to expense over the options’ vesting periods. Because the estimated value is determined as of the date of grant, the actual value ultimately realized by the employee may be significantly different.

	Three Months Ended		Six Months Ended	
(In Millions—Except Per Share Amounts)	**June 26, 2004**	**June 28, 2003**	**June 26, 2004**	**June 28, 2003**
Net income, as reported	$ 1,757	$ 896	$ 3,487	$ 1,811
Less: Total stock-based employee compensation expense determined under the fair value method for all options, net of tax	297	290	585	588
Pro forma net income	$ 1,460	$ 606	$ 2,902	$ 1,223
Reported basic earnings per common share	$ 0.27	$ 0.14	$ 0.54	$ 0.28
Reported diluted earnings per common share	$ 0.27	$ 0.14	$ 0.53	$ 0.27
Pro forma basic earnings per common share	$ 0.23	$ 0.09	$ 0.45	$ 0.19
Pro forma diluted earnings per common share	$ 0.22	$ 0.09	$ 0.44	$ 0.19

SFAS No. 123 requires the use of option pricing models that were not developed for use in valuing employee stock options. The Black-Scholes option pricing model was developed for use in estimating the fair value of short-lived exchange traded options that have no vesting restrictions and are fully transferable. In addition, option pricing models require the input of highly subjective assumptions, including the option’s expected life and the price volatility of the underlying stock. Because the company’s employee options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable measure of the fair value of employee options.

The weighted average estimated value of employee stock options granted during the second quarter of 2004 was $11.05 ($8.02 for the second quarter of 2003), and for the first half of 2004 was $11.21 ($8.07 for the first half of 2003). The value of options granted was estimated at the date of grant using the following weighted average assumptions:

	Three Months Ended		Six Months Ended	
	June 26, 2004	**June 28, 2003**	**June 26, 2004**	**June 28, 2003**
Expected life (in years)	4.0	4.0	4.1	4.2
Risk free interest rate	3.0%	2.0%	3.0%	2.1%
Volatility	.51	.55	.51	.55
Dividend yield	.6%	.4%	.6%	.4%

An analysis of historical information is used to determine the assumptions, to the extent that historical information is relevant, based on the terms of the grants being issued in any given period.

Under the Stock Participation Plan, rights to purchase shares are only granted during the first and third quarter of each year. The estimated value of rights to purchase shares granted under the Stock Participation Plan during the first quarter of 2004 was $7.29 ($5.19 for the first quarter of 2003). The value of rights to purchase shares granted in the first quarter of 2004 and 2003 was estimated at the date of grant using the following assumptions:

	2004	2003
Expected life (in years)	.5	.5
Risk free interest rate	1.0%	1.2%
Volatility	.31	.54
Dividend yield	.5%	.4%

Additional information with respect to stock option activity is as follows:

(Shares in Millions)	Shares Available for Grant	Outstanding Options: Number of Shares	Outstanding Options: Weighted Average Exercise Price
December 28, 2002	**921.8**	**845.4**	**$ 25.31**
Grants	(109.9)	109.9	$ 20.22
Exercises	—	(63.7)	$ 10.08
Cancellations	40.0	(41.5)	$ 30.49
Reduction in shares available for grant	(325.0)	—	—
December 27, 2003	**526.9**	**850.1**	**$ 25.54**
Grants	(94.8)	94.8	$ 27.24
Exercises	—	(33.4)	$ 10.52
Cancellations	11.1	(15.3)	$ 29.87
Expiration of 1984 stock option plan	(143.2)	—	—
Cancellation of 1997 stock option plan	(300.1)	—	—
Adoption of 2004 equity incentive plan	240.0	—	—
June 26, 2004	**239.9**	**896.2**	**$ 26.20**

Under the Stock Participation Plan, 76.4 million shares remained available for issuance at June 26, 2004 out of 944 million shares authorized. Employees purchased 9.5 million shares for $201 million in the first quarter of 2004 (12.2 million shares for $175 million in the first quarter of 2003). The next scheduled purchase under the Stock Participation Plan is in the third quarter of 2004.

Note 4: Earnings Per Share

The shares used in the computation of the company's basic and diluted earnings per common share are as follows:

	Three Months Ended		Six Months Ended	
(In Millions)	June 26, 2004	June 28, 2003	June 26, 2004	June 28, 2003
Weighted average common shares outstanding	**6,449**	**6,525**	**6,464**	**6,540**
Dilutive effect of employee stock options	109	55	127	55
Weighted average common shares outstanding, assuming dilution	**6,558**	**6,580**	**6,591**	**6,595**

Weighted average common shares outstanding, assuming dilution, includes the incremental effect of shares that would be issued upon the assumed exercise of stock options. For the second quarter of 2004, approximately 238 million of the company's stock options outstanding (218 million for the first half of 2004) were excluded from the calculation of diluted earnings per share because the exercise prices of the stock options were greater than or equal to the average share price for the quarter, and therefore their inclusion would have been anti-dilutive. These options could be dilutive in the future if the average share price increases and is greater than the exercise price of these options. For the second quarter of 2003, 563 million of the company's stock options outstanding (622 million for the first half of 2003) were excluded from the calculation.

Note 5: Common Stock Repurchase Program

During the second quarter of 2004, the company repurchased 56.0 million shares of common stock under the company's authorized repurchase program at a cost of $1.5 billion (105.2 million shares for $3.0 billion during the first half of 2004). During the second quarter of 2003, the company repurchased 51.8 million shares of common stock at a cost of $1.0 billion (114.4 million shares for $2.0 billion during the first half of 2003). Since the program began in 1990, the company has repurchased and retired approximately 2.0 billion shares at a cost of approximately $37 billion. As of June 26, 2004, approximately 309 million shares remained available for repurchase under the existing repurchase authorization.

In 1996, the Board of Directors authorized the annual repurchase of up to 100,000 shares of Intel's common stock in the open market to be awarded to select employees in recognition of their outstanding achievements. During the second quarter of 2004, the company repurchased approximately 20,000 shares under this authorization at a cost of $0.6 million, and these shares were awarded to employees who received Intel Achievement Awards. Intel Achievement Awards are given annually and represent Intel's highest honor for individuals and small teams for specific outstanding achievements that management believes have had a major impact on the company's operations.

Note 6: Trading Assets

Trading assets at fair value at the end of each period were as follows:

(In Millions)	June 26, 2004	December 27, 2003
Debt instruments	$ 2,390	$ 2,321
Equity securities offsetting deferred compensation	318	304
Total	**$ 2,708**	**$ 2,625**

Note 7: Inventories

Inventories at the end of each period were as follows:

(In Millions)	June 26, 2004	December 27, 2003
Raw materials	$ 395	$ 333
Work in process	1,912	1,490
Finished goods	916	696
Total	**$ 3,223**	**$ 2,519**

Note 8: Gains (Losses) on Equity Securities, Net

Net gains (losses) on investments in equity securities and certain equity derivatives were a loss of $8 million for the second quarter of 2004 and a gain of $11 million for the first half of 2004 (a loss of $58 million for the second quarter of 2003 and a loss of $185 million for the first half of 2003). These gains (losses) included impairments of non-marketable equity securities of approximately $33 million for the second quarter of 2004 and $44 million for the first half of 2004 ($64 million for the second quarter of 2003 and $204 million for the first half of 2003).

Note 9: Interest and Other, Net

Interest and other, net included:

	Three Months Ended		Six Months Ended	
(In Millions)	June 26, 2004	June 28, 2003	June 26, 2004	June 28, 2003
Interest income	$ 65	$ 67	$ 136	$ 135
Interest expense	(15)	(18)	(33)	(32)
Other, net	(3)	4	(7)	2
Total	**$ 47**	**$ 53**	**$ 96**	**$ 105**

Note 10: Goodwill

Goodwill by operating segment was as follows:

(In Millions)	Intel Communications Group	Intel Architecture Business	Total
December 27, 2003	**$ 3,638**	**$ 67**	**$ 3,705**
Transfer	(466)	466	—
Addition	25	—	25
June 26, 2004	**$ 3,197**	**$ 533**	**$ 3,730**

During the first quarter of 2004, the company combined its communications-related businesses into a single organization, the Intel Communications Group (ICG) (see “Note 16: Operating Segment Information”). Also during the first quarter of 2004, the consumer electronics business, which was previously part of the former ICG operating segment, was moved into the Intel Architecture business. Based on the estimated fair value of the consumer electronics business relative to the former ICG reporting unit, goodwill of $466 million was transferred to the Intel Architecture business.

During the second quarter of 2004, the company completed an acquisition for net cash consideration of approximately $33 million, which resulted in goodwill of $25 million. The operating results of the acquisition have been included within results of operations for ICG from the date of the acquisition. No goodwill was impaired during the first half of 2004. During the second quarter of 2003, goodwill of $6 million related to one of the company's small seed businesses was impaired.

Note 11: Identified Intangible Assets

During the first half of 2004, the company acquired intellectual property assets with a weighted average life of 5.4 years for approximately $83 million. Of the intellectual property assets acquired, $63 million represented the value of assets recognized as a result of payments under the settlement agreement with Intergraph Corporation (see "Note 15: Contingencies"). Also during the first half of 2004, the company acquired $18 million in developed technology, with an amortization period of four years, in connection with an acquisition completed during the second quarter of 2004. During the first quarter of 2004, the company terminated a license agreement valued at $8 million and extinguished the associated remaining liability. Identified intangible assets as of June 26, 2004 consisted of the following:

(In Millions)	Gross Assets	Accumulated Amortization	Net
Acquisition-related developed technology	$ 704	$ (530)	$ 174
Other acquisition-related intangibles	62	(29)	33
Intellectual property assets	672	(271)	401
Total identified intangible assets	**$ 1,438**	**$ (830)**	**$ 608**

Identified intangible assets as of December 27, 2003 consisted of the following:

(In Millions)	Gross Assets	Accumulated Amortization	Net
Acquisition-related developed technology	$ 994	$ (772)	$ 222
Other acquisition-related intangibles	94	(49)	45
Intellectual property assets	604	(212)	392
Total identified intangible assets	**$ 1,692**	**$ (1,033)**	**$ 659**

Other acquisition-related intangibles include items such as workforce-in-place and customer lists. Intellectual property assets primarily represent acquired technology licenses. Identified intangible assets are classified within other assets on the balance sheet.

All of the company's identified intangible assets are subject to amortization. Amortization of acquisition-related intangibles and costs included the following:

	Three Months Ended		Six Months Ended	
(In Millions)	June 26, 2004	June 28, 2003	June 26, 2004	June 28, 2003
Amortization of acquisition-related intangibles	$ 39	$ 56	$ 78	$ 112
Amortization of acquisition-related unearned stock compensation	4	11	11	22
Other acquisition-related costs	—	17	12	34
Total	**$ 43**	**$ 84**	**$ 101**	**$ 168**

Other acquisition-related costs include the amortization of deferred cash payments that represent contingent compensation to employees related to previous acquisitions. The compensation is being recognized over the period earned.

Amortization of intellectual property assets was $31 million for the second quarter of 2004 and $66 million for the first half of 2004 ($29 million for the second quarter of 2003 and $64 million for the first half of 2003).

Based on identified intangible assets recorded at June 26, 2004, and assuming no subsequent impairment of the underlying assets, the amortization expense for each period, excluding acquisition-related stock compensation and other acquisition-related costs, is expected to be as follows:

(In Millions)	2004[1]	2005	2006	2007	2008
Acquisition-related intangibles	$ 69	$ 106	$ 25	$ 6	$ 1
Intellectual property assets	$ 51	$ 95	$ 86	$ 57	$ 48

[1] *Reflects the remaining six months of fiscal 2004.*

Note 12: Long-Term Debt

Holders of the company's zero coupon senior exchangeable notes (Intel notes) had the right, prior to January 12, 2004, to exchange their Intel notes for Samsung Electronics Co., Ltd. convertible notes (Samsung notes) owned by Intel. The Intel notes matured in February 2004. As of the end of the first quarter of 2004, Intel note holders had either exercised their right to exchange their Intel notes for Samsung notes owned by Intel or received repayment of the principal amount of their Intel notes from Intel upon maturity.

Note 13: Comprehensive Income

The components of other comprehensive income, net of tax, were as follows:

	Three Months Ended		Six Months Ended	
(In Millions)	June 26, 2004	June 28, 2003	June 26, 2004	June 28, 2003
Net income	$ 1,757	$ 896	$ 3,487	$ 1,811
Change in net unrealized holding gain on available-for-sale investments	(25)	16	29	11
Change in net unrealized holding gain on derivatives	(2)	6	5	11
	$ 1,730	**$ 918**	**$ 3,521**	**$ 1,833**

The components of accumulated other comprehensive income, net of tax, were as follows:

(In Millions)	June 26, 2004	December 27, 2003
Accumulated net unrealized holding gain on available-for-sale investments	$ 64	$ 35
Accumulated net unrealized holding gain on derivatives	67	62
Accumulated minimum pension liability	(1)	(1)
Total accumulated other comprehensive income	**$ 130**	**$ 96**

Note 14: Provision for Taxes

During the second quarter of 2004, the company reversed previously accrued taxes related primarily to the closing of a state income tax audit that reduced the tax provision for the second quarter of 2004 by $62 million.

Note 15: Contingencies

Tax Matters

In August 2003, in connection with the IRS's regular examination of Intel's tax returns for the years 1999 and 2000, the IRS proposed certain adjustments to the amounts reflected by Intel on these returns as a tax benefit for its export sales. If the IRS issues formal assessments consistent with the notices and ultimately prevails in its position, Intel's federal income tax due for these years would increase by approximately $600 million, plus interest. The IRS may make similar claims for years subsequent to 2000 in future audits.

Intel disputes the proposed adjustments and intends to pursue this matter through applicable IRS and judicial procedures, as appropriate. Although the final resolution of the proposed adjustments is uncertain, based on currently available information, management believes that the ultimate outcome will not have a material adverse effect on the company's financial position, cash flows or overall trends in results of operations. In the event of an unfavorable resolution, there exists the possibility of a material adverse impact on the results of operations of the period in which the matter is ultimately resolved, or an unfavorable outcome becomes probable and reasonably estimable.

Legal Proceedings

In 1997, Intergraph Corporation filed suit in Federal District Court in Alabama, generally alleging, among other claims, that Intel infringed certain Intergraph patents. In August 2001, Intergraph filed a second suit in the U.S. District Court for the Eastern District of Texas, alleging that Intel infringed additional Intergraph patents, and seeking an injunction and unspecified damages. In 2002, Intel and Intergraph entered into a settlement agreement, pursuant to which they agreed to settle the Alabama lawsuit and dismiss it with prejudice. Pursuant to the 2002 settlement agreement, Intel made a cash payment of $300 million to Intergraph and received a license under all Intergraph patents, excluding the patents at issue in the Texas case.

Under the 2002 settlement agreement, if the patents in the Texas case were found to be infringed, Intel would pay Intergraph $150 million. If Intergraph prevailed on either patent on appeal, the 2002 settlement agreement provided that Intel would pay Intergraph an additional $100 million and receive a license for the patents at issue in the case. In 2002, the Texas District Court ruled that Intel infringed both patents at issue in that case. Pursuant to the settlement agreement, Intel paid Intergraph $150 million. Intel then appealed the decision. In February 2004, the Court of Appeals for the Federal Circuit found that the District Court had erred, and remanded the case to the District Court to determine in the first instance whether the patents at issue had been infringed.

In 2002, Intergraph filed suit in the Eastern District of Texas against Dell Inc., Gateway Inc. and Hewlett-Packard Company, alleging infringement of three of Intergraph's patents. These three patents are a subset of the patents that were the subject of the Alabama lawsuit that Intergraph had filed against Intel. In 2003, Dell filed its answer and counterclaim and named Intel as well as Intergraph in a counterclaim for declaratory judgment.

In March 2004, Intel and Intergraph entered into a second settlement agreement, pursuant to which they agreed to settle the Texas lawsuit, and Intergraph agreed to dismiss Intergraph's separate pending litigation against Dell Inc. Both cases were dismissed with prejudice. Pursuant to the 2004 settlement agreement, Intel will pay Intergraph a total of $225 million, with $125 million paid in April 2004 and $25 million paid in each of the following four quarters. Also pursuant to the 2004 settlement agreement, Intergraph granted Dell a license under patents filed prior to April 4, 2012 to sell Dell products, including Dell computer systems that contain Intel microprocessors. The 2004 settlement agreement further provided that Intergraph is entitled to retain the $150 million previously paid by Intel pursuant to the 2002 settlement agreement, but that no additional $100 million payment would be required under the 2002 settlement agreement. The 2004 settlement agreement also includes additional license rights in favor of Intel and Intel's customers and a covenant by Intergraph not to sue any Intel customer for products that include Intel microprocessors, Intel chipsets and Intel motherboards in combination. As a result of the 2004 settlement agreement, Intel recorded a $162 million charge to cost of sales in the first quarter of 2004. The remaining balance of $63 million represented the value of intellectual property assets acquired as part of the settlement. This balance will be amortized over the assets' remaining useful lives.

In March 2004, MicroUnity filed suit against Intel and Dell Inc. in the Eastern District of Texas. MicroUnity claims that certain Intel® Pentium® microprocessors infringe seven MicroUnity patents, and that certain Intel chipsets infringe one MicroUnity patent. MicroUnity also alleges that Dell products that contain these Intel products infringe the same patents. At Dell's request, Intel agreed to indemnify Dell with respect to MicroUnity's claims against Dell, subject to the terms of a prior agreement between Intel and Dell. MicroUnity seeks an injunction, unspecified damages, and attorneys' fees against both Intel and Dell. Intel disputes MicroUnity's claims and intends to defend the lawsuit vigorously.

In June 2002, various plaintiffs filed a lawsuit in the Third Judicial Circuit Court, Madison County, Illinois, against Intel, Hewlett-Packard Company, HPDirect, Inc. and Gateway Inc., alleging that the defendants' advertisements and statements misled the public by suppressing and concealing the alleged material fact that systems containing Intel® Pentium® 4 processors are less powerful and slower than systems containing Intel® Pentium® III processors and a competitor's processors. In December 2003, the plaintiffs filed a motion for nationwide class certification of their claims against Intel Corporation. In April 2004, the plaintiffs filed a third amended complaint modifying their proposed classes to seek certification of a nationwide class of certain end use purchasers of specific first generation versions of Pentium 4 processors known internally as "Willamette" and computers containing such processors. In July 2004, the court certified an Illinois-only class of certain end use purchasers of Willamette Pentium 4 processors or computers containing such processors. The plaintiffs seek unspecified damages, and attorneys' fees and costs. The company disputes the plaintiffs' claims and intends to defend the lawsuit vigorously.

The company is currently a party to various claims and legal proceedings, including those noted above. If management believes that a loss arising from these matters is probable and can reasonably be estimated, the company records the amount of the loss, or the minimum estimated liability when the loss is estimated using a range and no point within the range is more probable than another. As additional information becomes available, any potential liability related to these matters is assessed and the estimates are revised, if necessary. Based on currently available information, management believes that the ultimate outcome of these matters, individually and in the aggregate, will not have a material adverse effect on the company's financial position or overall trends in results of operations. However, litigation is subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include monetary damages or an injunction prohibiting Intel from selling one or more products. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on the results of operations of the period in which the ruling occurs, or future periods.

Note 16: Operating Segment Information

Beginning in 2004, the company combined its communications-related businesses into a single organization, the Intel Communications Group (ICG). Previously, these communications businesses were in two separate product line operating segments: the former Intel Communications Group and the Wireless Communications and Computing Group. The company now consists of two reportable product-line operating segments: the Intel Architecture business, which is composed of the Desktop Platforms Group, the Mobile Platforms Group and the Enterprise Platforms Group; and ICG. All prior period amounts have been restated to reflect the new presentation as well as certain minor reorganizations effected through the second quarter of 2004.

The company's Executive Office consists of Chief Executive Officer (CEO) Craig R. Barrett and President and Chief Operating Officer (COO) Paul S. Otellini. The CEO and COO have joint responsibility as the Chief Operating Decision Maker (CODM), as defined by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The CODM allocates resources to and assesses the performance of each operating segment using information about their revenue and operating profit before interest and taxes.

The Intel Architecture operating segment's products include microprocessors and related chipsets and motherboards. ICG's products include flash memory; wired Ethernet and wireless connectivity products; communications infrastructure components such as network and embedded processors and optical components; microcontrollers; application and cellular processors used in cellular handsets and handheld computing devices; and cellular baseband chipsets.

In addition to these operating segments, the company has sales and marketing, manufacturing, finance and administration groups. Expenses of these groups are allocated to the operating segments and are included in the operating results reported below.

The "all other" category includes acquisition-related costs, including amortization and any impairments of acquisition-related intangibles and goodwill. "All other" also includes the results of operations of seed businesses that support the company's initiatives. Finally, "all other" includes certain corporate-level operating expenses, including a portion of profit-dependent bonus and other expenses not allocated to the operating segments.

Segment information is summarized as follows:

	Three Months Ended		Six Months Ended	
(In Millions)	June 26, 2004	June 28, 2003	June 26, 2004	June 28, 2003
Intel Architecture Business				
Net revenue	$ 6,774	$ 5,850	$ 13,799	$ 11,622
Operating income	$ 2,788	$ 1,829	$ 5,796	$ 3,734
Intel Communications Group				
Net revenue	$ 1,271	$ 957	$ 2,336	$ 1,920
Operating loss	$ (126)	$ (255)	$ (345)	$ (473)
All Other				
Net revenue	$ 4	$ 9	$ 5	$ 25
Operating loss	$ (281)	$ (298)	$ (594)	$ (594)
Total				
Net revenue	$ 8,049	$ 6,816	$ 16,140	$ 13,567
Operating income	$ 2,381	$ 1,276	$ 4,857	$ 2,667

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We begin Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) with a discussion of Intel's overall strategy and the strategy for our major business units to give the reader an overview of the goals of our business and the direction in which our business and products are moving. This strategy discussion is followed by a discussion of the "Critical Accounting Estimates" that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. We then discuss our "Results of Operations," beginning with an Overview, followed by an analysis of changes in our balance sheet and cash flows in the section entitled "Financial Condition." Finally, we conclude this MD&A with our "Business Outlook" section, discussing our outlook for 2004 and the third quarter of 2004.

The various sections of this MD&A contain a number of forward-looking statements, all of which are based on current expectations and could be affected by the uncertainties and risk factors described throughout this filing and particularly in the "Business Outlook" section. Our actual results may differ materially, and these forward-looking statements do not reflect the potential impact of any divestitures, mergers, acquisitions or other business combinations that had not been completed as of July 28, 2004.

Strategy

Our goal is to be the preeminent building block supplier to the worldwide Internet economy. Our primary focus is on developing advanced integrated silicon technology solutions, which we believe will provide the performance and capabilities necessary to help accelerate the convergence of computing and communications capabilities with digital content. We also provide key components for the networking and communications infrastructure used to connect technology users. We believe that convergence is occurring primarily in three market segments: the digital home, the digital enterprise and mobile Internet users.

We believe users of computing and communications devices want improved performance, which includes faster processing performance and/or improved capabilities such as multithreaded or multitasking capability, seamless networking connectivity, improved security, reliability, ease of use and interoperability among devices. It is our goal to incorporate features addressing these capabilities in our various products to meet user demands.

Beginning in 2004, the company combined its communications-related businesses into a single organization, the Intel Communications Group (ICG). Previously, these communications businesses were in two separate product line operating segments: the former Intel Communications Group and the Wireless Communications and Computing Group (WCCG). The company now consists of two reportable product-line operating segments: the Intel Architecture business and ICG. Both of our operating segments use their core competencies in the design and manufacture of integrated circuits, as well as key silicon and platform capabilities, to provide building blocks for technology solutions. The Intel Architecture business provides advanced technologies to support the desktop, mobile and enterprise computing platforms. ICG focuses on wired and wireless network connectivity products, component-level products and platform solutions for the wireless handheld communications and computing market segments, and key components for networking and communications infrastructure devices.

All of our businesses operate in highly innovative environments characterized by continuing and rapid introduction of new products that offer improved performance at lower prices. As part of our overall strategy to compete in each relevant market segment, we use our core competencies and financial resources, as well as our global presence and brand recognition. Also, under our Intel Capital program, we make equity investments in companies around the world to further our strategic objectives and support our key business initiatives. Worldwide, our competitors range in size from large established multinational companies with multiple product lines, to smaller companies and new entrants to the marketplace that compete in specialized market segments. With the trend toward convergence in computing and communications products, product offerings will likely cross over multiple categories, offering us new opportunities, but also resulting in more businesses that compete with us. Competition tends to increase pricing pressure on our products, which may mean that we must offer our products at lower prices than we had anticipated, resulting in lower profits. In market segments where our competitors have established products and brand recognition, it may be inherently difficult for us to compete against them. When we believe it is appropriate, we will take various steps, including introducing new products and discontinuing older products, reducing prices, and offering rebates and other incentives in order to increase acceptance of our latest products and to be competitive within each relevant market segment.

We plan to continue to cultivate new businesses and work with the computing, communications and consumer electronics industries through standards bodies, trade associations, original equipment manufacturers (OEMs), original design manufacturers (ODMs), and independent software and operating system vendors, to align the industry to offer products that take advantage of the latest market trends and usage models. These efforts include helping to create the infrastructure for wireless network connectivity. We are also providing development tools and support to help software developers create software applications and operating systems that take advantage of our microprocessors, chipsets and other next-generation semiconductor devices with improved performance, including advanced technology capabilities integrated at the silicon level.

Intel Architecture Business

The Intel Architecture business supports the desktop, mobile and enterprise computing platforms. As devices continue to be developed that take advantage of converged computing and communications capabilities and digital content, our goal is to continue to deliver processors with improved performance. Hyper-Threading Technology (HT Technology), which can enable an improved multitasking user environment, and Intel® Centrino™ mobile technology, which can enhance the mobile computing experience, are examples of the features we offer in our products that can improve performance. In addition, we believe that system security and reliability features at the hardware level will facilitate an enhanced computing experience for end users and we are working to provide these capabilities in future products. Separately, in the second quarter of 2004, we announced plans to manufacture dual-core processors in the future. These processors incorporate two processor cores on a single chip and complement our effort to enable more capabilities, performance, and flexibility for end users beyond processor speed.

For the desktop platform, our strategy is to introduce microprocessors and chipsets with improved performance, tailored to the needs of different market segments using a tiered branding approach. In addition, we are working toward introducing components specifically designed for consumer electronics products to be used in the digital home. For the mobile platform, our strategy is to deliver products optimized for some or all of the four mobility vectors: performance, battery life, form factor (the physical size and shape of a device) and wireless connectivity. Our strategy for the enterprise platform is to provide processors and chipsets with improved performance, which includes advanced technology features, as well as competitive price for performance for entry-level to high-end servers and workstations.

For the desktop performance market segment, we offer the Intel® Pentium® 4 processor to meet the computing needs of users both at home and at work. These processors are optimized to deliver performance across a broad range of business and consumer applications. We also offer the Pentium® 4 processor with HT Technology. When used in a computer system with the other features required to take advantage of this technology, HT Technology allows a multithreaded software program to run as though it uses two processors, even though it uses only one processor. Our current versions of the Pentium 4 processor with HT Technology support the 800-MHz system bus, which allows for faster data transfer into and out of the processor. For the desktop value market segment, we offer the Intel® Celeron® processor, designed to meet the core computing needs and affordability requirements of value-conscious PC users. In the second quarter of 2004, we launched our new desktop chipsets, the Intel® 915 G/P and 925X Express Chipsets, formerly codenamed "Grantsdale" and "Alderwood." These new chipsets support DDR2 memory and PCI Express, as well as improved graphics and audio capabilities, and incorporate Intel® Matrix Storage Technology, which enhances data protection capabilities for end users through integrated support for redundant hard drives.

For the mobile market segment, we offer processors optimized for performance mobility and portability users, with form factors from sub-notebook and tablet PCs to thin-and-light as well as full-size notebook PCs. For performance mobility users we offer Intel Centrino mobile technology, designed and optimized specifically for the four key vectors of mobility. Intel Centrino mobile technology consists of an Intel® Pentium® M processor and the Intel® 855 chipset family (both offered by the Mobile Platforms Group within the Intel Architecture business) as well as a wireless network connection, which is based on the 802.11 industry standard (from ICG). In the second quarter of 2004, we began shipping Intel Pentium M processors built on our 90-nanometer manufacturing technology. These new processors, formerly code-named "Dothan," may feature higher clock speeds and include 2 megabytes (MB) of Level 2 cache memory. For portable PC users, who want systems with near-desktop features, including improved performance, larger screens, full-size keyboards and multiple hard drives—we offer the Mobile Intel® Pentium® 4 processor. In addition, for the mobile value market segment, we offer the Intel® Celeron® M processor and the mobile Intel Celeron processor.

The Intel Architecture business supports the enterprise platform by offering products that address various levels of data processing and compute-intensive applications. Our Intel® Xeon™ processor family of products supports a range of entry-level to high-end technical and commercial computing applications for the workstation and server market segments. Our Intel® Itanium® processor family of products supports an even higher level of computing performance for data processing, the handling of high transaction volumes and other compute-intensive applications for enterprise-class servers, as well as supercomputing solutions. The Intel® Xeon™ processor with HT Technology is aimed at two-way servers, also known as dual-processing (DP) servers, and workstations. In addition, we recently introduced our Intel Xeon processors, formerly code-named "Nocona," based on the IA-32 architecture with Intel® Extended Memory 64 Technology, our 64-bit extension technology. These processors are currently available for workstations, with availability for server platforms to follow shortly. For servers based on four or more processors, we offer the Intel® Xeon™ processor MP for multiprocessing servers with HT Technology. For the enterprise-class market segment, we offer the Intel® Itanium® 2 processor, based on 64-bit architecture.

Our microprocessor business generally has followed a seasonal trend; however, there can be no assurance that this trend will continue. In the past five years, the company's sales of microprocessors were higher in the second half of the year than in the first half of the year. Consumer purchases of PCs have been higher in the second half of the year primarily due to back-to-school and holiday demand. In addition, technology purchases from businesses have tended to be higher in the second half of the year.

Intel Communications Group

Within ICG, our strategy is to be the leading supplier of silicon and other component-level communications building blocks for OEMs and other systems builders. We are focused on developing products that we believe will help to build out the Internet as well as developing component-level products for the wireless handheld computing and communications market segments.

In support of the build out of the Internet, we offer products designed for wired Ethernet and wireless connectivity; for the communications infrastructure, including network and embedded processors; and for networked storage. Our strategy for Ethernet connectivity is to expand our product portfolio in the local area network (LAN) market segment and to address the metropolitan area network (MAN) and networked storage market segments. Within the LAN and MAN market segments, we are investing in Gigabit Ethernet, 10-Gigabit Ethernet and wireless technologies based on industry standards for wireless 802.11 (WLAN, or WiFi) mobile applications and the emerging standard supporting 802.16 (or WiMAX) for broadband connectivity. In January 2004, we introduced the Intel® PRO/Wireless 2200BG network connection, featuring both 802.11b and 802.11g wireless functionality for notebook PCs based on Intel Centrino mobile technology. In network processing, we deliver products that are basic building blocks for modular communications platforms. These products include advanced, programmable processors used to manage and direct data moving across the Internet and corporate networks. We also offer embedded processors that can be used for modular communications platform applications as well as for industrial equipment and point-of-sale systems. In the networked storage market segment, we are developing products that allow storage resources to be added at any location on either of the two most prevalent types of storage networks: Ethernet or Fibre Channel.

Component-level products for the wireless handheld computing and communications market segments include flash memory products, applications processors and cellular baseband chipsets. Our strategy for our flash memory products is to offer a broad range of memory densities, leading-edge packaging technology and high-performance functionality. In addition to having offerings that meet the needs of our current cellular customers, we also offer flash memory products for other market segments such as the broad market segment. The broad market segment includes flash memory products found in applications such as set-top boxes, networking products and other devices such as DVD players and DSL cable modems. In our flash memory product portfolio, we currently offer NOR flash memory products such as Intel StrataFlash® Wireless Memory, which uses two-bit-per-cell technology to provide a single-chip solution for fast code execution with higher storage densities and 1.8-volt operation optimized for advanced mobile phone designs. In application processing, Intel XScale® technology provides the processing capability in data-enabled mobile phones and PDAs. Addressing the trend toward convergence in computing and communications, we offer stacked packaging solutions (stacking an applications processor on top of memory) as well as packaging that stacks several memory chips together.

Critical Accounting Estimates

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on the results we report in our financial statements, which we discuss under the heading "Results of Operations" following this section of our MD&A. Some of our accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Our most critical accounting estimates include the assessment of recoverability of goodwill, which impacts goodwill impairments; valuation of non-marketable equity securities, which impacts net gains (losses) on equity securities when we record impairments; valuation of inventory, which impacts gross margin; assessment of recoverability of long-lived assets, which primarily impacts gross margin when we impair manufacturing assets or accelerate their depreciation; and recognition and measurement of current and deferred income tax assets and liabilities, which impacts our tax provision. Below, we discuss these policies further, as well as the estimates and judgments involved. We also have other policies that we consider key accounting policies, such as our policies for revenue recognition, including the deferral of revenue on sales to distributors; however, these policies do not meet the definition of critical accounting estimates, because they do not generally require us to make estimates or judgments that are difficult or subjective.

Goodwill. Goodwill is initially recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. We perform an annual review in the fourth quarter of each year, or more frequently if indicators of potential impairment exist, to determine if the recorded goodwill is impaired. Our impairment review process compares the fair value of the reporting unit to its carrying value, including the goodwill related to the reporting unit. Reporting units may be operating segments as a whole or an operation one level below an operating segment, referred to as a component. Components are defined as operations for which discrete financial information is available and reviewed by segment management. To determine the reporting unit's fair value, our review process uses the income method and is based on a discounted future cash flow approach that uses the following reporting unit estimates: revenue, based on assumed market segment growth rates and Intel's assumed market segment share; estimated costs; and appropriate discount rates based on the reporting units' weighted average cost of capital as determined by considering the observable weighted average cost of capital of comparable companies. Our estimates of market segment growth, our market segment share and costs are based on historical data, various internal estimates and a variety of external sources, and are developed as part of our routine long-range planning process. The same estimates are also used in the planning for our long-term manufacturing capacity needs as part of our capital budgeting process and for both long-term and short-term business planning and forecasting. We test the reasonableness of the inputs and outcomes of our discounted cash flow analysis by comparison to available comparable market data. In determining the carrying value of the reporting unit, we must include an allocation of our manufacturing assets because of the interchangeable nature of our manufacturing capacity. This allocation is based on each reporting unit's relative percentage utilization of our manufacturing assets. Our most recent review of goodwill, in 2003, resulted in a $611 million non-cash impairment charge related to the then existing WCCG reporting unit. A substantial majority of our remaining recorded goodwill is related to the ICG reporting unit. The estimates we used in our most recent annual review for ICG assume that we will gain market segment share in the future and that the communications business will experience a gradual recovery and return to growth from the current trends. We may incur charges for the impairment of goodwill in the future if the communications and mobile handheld computing sectors do not grow as we expect, if ICG fails to deliver new products, if the products fail to gain expected market acceptance, if we fail to achieve our assumed revenue growth rates or assumed gross margin, or if interest rates increase significantly. Prior to the combination of our communications-related businesses, our consumer electronics business, which was previously part of our former ICG operating segment, was moved to our Intel Architecture business. Based on the estimated fair value of the consumer electronics business relative to the ICG reporting unit, goodwill of $466 million was transferred to our Intel Architecture business.

Non-Marketable Equity Securities. At June 26, 2004, the carrying value of our portfolio of strategic investments in non-marketable equity securities, excluding equity derivatives, totaled $627 million ($665 million at December 27, 2003). Under our Intel Capital program, we make equity investments in companies around the world to further our strategic objectives and support our key business initiatives. The Intel Capital program focuses on investing in companies and initiatives to stimulate growth in the Internet economy and its infrastructure, create new business opportunities for Intel and expand global markets for our products. The investments may support, among other things, Intel product initiatives, emerging trends in the technology industry or worldwide Internet deployment. This strategic investment program helps advance our overall mission to be the preeminent building block supplier to the worldwide Internet economy.

We invest in companies that develop software, hardware and other technologies or provide services supporting technologies. Our current investment focus areas include: enabling mobile and Internet client devices, helping to create the digital home, advancing high-performance communications infrastructure and developing the next generation of silicon production technologies. Our focus areas tend to develop and change over time due to rapid advancements in technology.

We typically invest in non-marketable equity securities of private companies; the proceeds from our investments contribute a portion of the funds required for these companies to grow. Our investment portfolio ranges from early-stage companies that are often still defining their strategic direction to more mature companies whose products or technologies may directly support an Intel product or initiative. We invest for strategic reasons, with each investment also evaluated for potential financial returns. The program seeks to invest in companies and businesses that can succeed and have an impact on their market segment. However, these types of investments involve a great deal of risk, and there can be no assurance that any specific company, whether at an early or mature stage, or somewhere in between, will grow or will be successful, and consequently, we could lose all or part of our investment. When the strategic objectives of an investment have been achieved, or if the investment or business diverges from our strategic objectives, we may decide to dispose of the investment. However, our investments in non-marketable equity securities are not liquid, and there can be no assurance that we will be able to dispose of these investments on favorable terms or at all.

We have an investment in non-voting stock of Elpida Memory, Inc., a Japanese provider of Dynamic Random Access Memory (DRAM), with a carrying amount of $124 million at June 26, 2004. This investment is intended to provide Elpida with an opportunity to align its product roadmap, as appropriate, with our roadmap and is part of our investment strategy to support the development and supply of DRAM products. No other investment in our non-marketable portfolio was individually significant as of June 26, 2004.

Our ability to recover our strategic investments in non-marketable equity securities and to earn a return on these investments is primarily dependent on how successfully these companies are able to execute to their business plans and how well their products are accepted, as well as their ability to obtain venture capital funding for continued operations, to grow and to take advantage of liquidity events. In the current equity market environment, the companies' ability to obtain additional funding as well as to take advantage of liquidity events, such as initial public offerings, mergers and private sales, remains constrained.

We review all of our investments quarterly for impairment; however, for non-marketable equity securities, the impairment analysis requires significant judgment to identify events or circumstances that would likely have a significant adverse effect on the fair value of the investment. The indicators that we use to identify those events or circumstances include (a) the investee's revenue and earnings trends relative to predefined milestones and overall business prospects, (b) the technological feasibility of the investee's products and technologies, (c) the general market conditions in the investee's industry, and (d) the investee's liquidity, debt ratios and the rate at which the investee is using its cash.

Investments identified as having an indicator of impairment are subject to further analysis to determine if the investment is other than temporarily impaired, in which case we write the investment down to its impaired value. When an investee is not considered viable from a financial or technological point of view, we write down the entire investment since we consider the estimated fair market value to be nominal. If an investee obtains additional funding at a valuation lower than our carrying amount or requires a new round of equity funding to stay in operation and the new funding does not appear imminent, we presume that the investment is other than temporarily impaired, unless specific facts and circumstances indicate otherwise.

Investments in non-marketable securities are inherently risky and a number of these companies are expected to fail. Their success (or lack thereof) is dependent upon product development, market acceptance, operational efficiency and other key business success factors. In addition, depending on their future prospects, they may not be able to raise additional financings when needed or they may receive lower valuations, with less favorable investment terms than in previous financings, and the investments would likely become impaired. However, we are not able to determine at the present time which specific investments are likely to be impaired in the future, or the extent or timing of individual impairments. Impairments of investments in our portfolio, primarily impairments of non-marketable equity securities, were approximately $33 million in the second quarter of 2004 and $44 million in the first half of 2004 (approximately $64 million in the second quarter of 2003 and $204 million in the first half of 2003).

Inventory. The valuation of inventory requires us to estimate obsolete or excess inventory as well as inventory that is not of saleable quality. The determination of obsolete or excess inventory requires us to estimate the future demand for our products within specific time horizons, generally six months or less. The estimates of future demand that we use in the valuation of inventory are the basis for our published revenue forecast, which is also consistent with our short-term manufacturing plan. If our demand forecast for specific products is greater than actual demand and we fail to reduce manufacturing output accordingly, we could be required to write down additional inventory, which would have a negative impact on our gross margin.

Long-Lived Assets. We assess the impairment of long-lived assets when events or changes in circumstances indicate that the carrying value of the assets or the asset grouping may not be recoverable. Factors that we consider in deciding when to perform an impairment review include significant under-performance of a business or product line in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in our use of the assets. Recoverability of assets that will continue to be used in our operations is measured by comparing the carrying amount of the asset grouping to the related total future net cash flows. If an asset grouping's carrying value is not recoverable through the related cash flows, the asset grouping is considered to be impaired. The impairment is measured by the difference between the asset grouping's carrying amount and its fair value, based on the best information available, including market prices or discounted cash flow analysis.

Impairments of long-lived assets are determined for groups of assets related to the lowest level of identifiable independent cash flows. Due to our asset usage model and the interchangeable nature of our semiconductor manufacturing capacity, we must make subjective judgments in determining the independent cash flows that can be related to specific asset groupings. In addition, as we make manufacturing process conversions and other factory planning decisions, we must make subjective judgments regarding the remaining useful lives of assets, primarily process-specific semiconductor manufacturing tools and building improvements. When we determine that the useful lives of assets are shorter than we had originally estimated, and there are sufficient cash flows to support the carrying value of the assets, we accelerate the rate of depreciation charges in order to fully depreciate the assets over their new shorter useful lives.

Income Taxes. We must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes.

We must assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. As of June 26, 2004, we believed that all of the deferred tax assets recorded on our balance sheet would ultimately be recovered. However, should there be a change in our ability to recover our deferred tax assets, our tax provision would increase in the period in which we determine that the recovery is not probable.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes will be due. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We record an additional charge in our provision for taxes in the period in which we determine that the recorded tax liability is less than we expect the ultimate assessment to be. For a discussion of current tax matters, see "Note 14: Provision for Taxes" and "Note 15: Contingencies" in the Notes to Consolidated Condensed Financial Statements.

Results of Operations – Second Quarter of 2004 Compared to Second Quarter of 2003

Overview

In the second quarter of 2004, we saw a substantial improvement in our Intel Architecture business compared to the second quarter of 2003, and as we look ahead to the rest of 2004, we are planning for growth in annual revenue made possible by an improved economic climate from 2003, and further progress in growing overall gross margin dollars. However, as economic recovery proceeds, the year to year growth rates of the last year will inevitably slow.

We continue to be largely dependent on the success of our microprocessor business. Revenue from sales of microprocessors within our Intel Architecture business represented approximately 71% of our consolidated net revenue in the second quarter of 2004, compared to 74% in the first quarter of 2004. This percentage decrease reflects a greater proportion of our second quarter revenue mix being comprised of products such as flash memory, which typically have lower gross margin percentages than microprocessors. We expect this trend to continue in the second half of 2004 and we expect it to negatively impact our overall gross margin percentage for 2004. Our goal remains to grow total revenue and gross margin dollars. Growth in sales and profitability depends on our ability to successfully ramp new products, and to obtain continuing benefits from the productive use of our manufacturing assets used for 90-nanometer process technology and 300mm wafers. Although we plan to continue ramping our processors built on 90-nanometer process technology, higher yields on this leading-edge process technology have caused increased inventory levels of microprocessors. We plan to lower these inventory levels by slowing the growth rate of wafer starts and this will slow the rate of reduction in microprocessor unit costs. In addition, downward pressure on average selling prices will have an impact on margins in the second half of the year.

Within ICG, our flash memory group successfully reengaged with the broad market segment in the second quarter and we plan on continuing to increase our sales of flash memory products in the second half of the year. Although the communications market segment is beginning to experience some signs of growth, ICG revenue is largely dependent on our continuing to secure design wins on new and existing products, to supply the products for these design wins and on OEMs taking the product designs to production. In addition, our flash memory group is largely dependent on customer demand for higher density flash memory and continued end user adoption of new leading-edge cellular handsets.

As discussed in our "Strategy" section, the results of operations for our operating segments in this MD&A are presented under the new organizational structure. All prior period amounts have been restated to conform to the new presentation.

The following table sets forth certain consolidated statements of income data as a percentage of net revenue for the periods indicated:

	Q2 2004	Q2 2003
Net revenue	**100.0%**	**100.0%**
Cost of sales	40.6%	49.1%
Gross margin	**59.4%**	**50.9%**
Research and development	14.7%	15.1%
Marketing, general and administrative	14.6%	15.8%
Impairment of goodwill	—	0.1%
Amortization of acquisition-related intangibles and costs	0.5%	1.2%
Operating income	**29.6%**	**18.7%**

The following table sets forth information on our geographic regions for the periods indicated:

	Q2 2004		Q2 2003	
(Dollars In Millions)	**Revenue**	**% of Total**	**Revenue**	**% of Total**
Americas	$ 1,956	24%	$ 1,955	28%
Asia-Pacific	3,661	45%	2,778	41%
Europe	1,665	21%	1,418	21%
Japan	767	10%	665	10%
Total	**$ 8,049**	**100%**	**$ 6,816**	**100%**

Our net revenue for Q2 2004 was $8.05 billion, an increase of 18% compared to Q2 2003. This significant growth was primarily driven by strength in sales of microprocessors in our Intel Architecture business, accompanied by higher revenue for ICG.

Our Asia-Pacific region's revenue comprised the largest portion of our total revenue in Q2 2004 and increased 32% compared to Q2 2003, reflecting both growth in local consumption and movement of more of the production for our customers' PC supply chain to Asia. Europe revenue increased 17%, and Japan revenue increased 15%. Our Americas region sales were flat. We experienced growth in both mature markets and emerging markets, led by growth in China, in Q2 2004 compared to Q2 2003. Our business relies on continued sales growth in emerging markets and continued business and consumer investment in technologies that use our products in mature markets.

Our overall gross margin percentage increased to 59.4% for Q2 2004 from 50.9% in Q2 2003. The increase in overall gross margin was due primarily to improved gross margin within the Intel Architecture business. See "Business Outlook" for a discussion of gross margin expectations.

Intel Architecture Business

The revenue and operating income for the Intel Architecture operating segment for the second quarter of 2004 and 2003 were as follows:

(In Millions)	Q2 2004	Q2 2003
Microprocessor revenue	$ 5,751	$ 4,844
Chipset, motherboard and other revenue	1,023	1,006
Net revenue	$ 6,774	$ 5,850
Operating income	$ 2,788	$ 1,829

Net revenue for the Intel Architecture operating segment increased $924 million, or 16%, in Q2 2004 compared to Q2 2003. Revenue from sales of microprocessors increased 19%, while revenue from sales of chipsets, motherboards and other was approximately flat. The increase in revenue was primarily due to significantly higher unit sales of microprocessors in Q2 2004, reflecting the overall economic recovery.

Operating income increased $959 million, or 52%, in Q2 2004 compared to Q2 2003. The increase was primarily due to the impact of higher revenue and lower unit costs for microprocessors, and approximately $160 million of lower manufacturing startup costs primarily related to the ramp of 90-nanometer technology on 300-millimeter wafer manufacturing.

Intel Communications Group

The revenue and operating loss for the ICG operating segment for the second quarter of 2004 and 2003 were as follows:

(In Millions)	Q2 2004	Q2 2003
Net revenue	$ 1,271	$ 957
Operating loss	$ (126)	$ (255)

Net revenue increased by $314 million, or 33%, in Q2 2004 compared to Q2 2003. This increase was primarily due to a significant increase in unit sales of flash memory products with flash memory revenue increasing to $587 million in Q2 2004 from $411 million in Q2 2003. The revenue increase for ICG was also due to higher sales of embedded processing components, and to a lesser extent, wireless connectivity products, including the wireless components for our Intel Centrino mobile technology, as well as communications infrastructure components.

The operating loss decreased to $126 million in Q2 2004, from a loss of $255 million in Q2 2003. Higher revenue, as well as the absence of costs incurred in Q2 2003 for under-utilized factory capacity for flash memory products, improved the operating results. In addition, due to improved demand, sales of flash memory product inventory that had been previously reserved contributed to the lower operating loss. These improvements were partially offset by higher costs for flash memory products as we sold higher density products, as well as the impact of higher inventory write-offs primarily for certain applications and cellular processors.

Operating Expenses

Operating expenses for the second quarter of 2004 and 2003 were as follows:

(In Millions)	Q2 2004	Q2 2003
Research and development	$ 1,186	$ 1,029
Marketing, general and administrative	$ 1,170	$ 1,073
Impairment of goodwill	$ —	$ 6
Amortization of acquisition-related intangibles and costs	$ 43	$ 84

Research and development spending increased $157 million, or 15%, compared to Q2 2003. This increase was primarily due to higher expenses related to development for manufacturing process technologies, including the 65-nanometer process on 300-millimeter wafers, and higher expenses for product development programs in the Intel Architecture business, as well as higher profit-dependent compensation expenses. Marketing, general and administrative expenses were up $97 million, or 9%, compared to Q2 2003 primarily due to higher cooperative advertising expenses, as a result of higher revenue in our Intel Architecture business and as our customers used a higher percentage of their available Intel Inside® program funds, and increased profit-dependent compensation expenses. Research and development along with marketing, general and administrative expenses were 29% of net revenue in Q2 2004 and 31% of net revenue in Q2 2003.

Amortization of acquisition-related intangibles and costs was $43 million in Q2 2004 compared to $84 million in Q2 2003, as a portion of the intangibles related to prior acquisitions became fully amortized.

Gains (Losses) on Equity Securities, Interest and Other, and Taxes

Gains (losses) on equity securities, net, interest and other, net and taxes for the second quarter of 2004 and 2003 were as follows:

(In Millions)	Q2 2004	Q2 2003
Gains (losses) on equity securities, net	$ (8)	$ (58)
Interest and other, net	$ 47	$ 53
Provision for taxes	$ 663	$ 375

Gains (losses) on equity securities and certain equity derivatives for Q2 2004 was a net loss of $8 million compared to a net loss of $58 million for Q2 2003. The lower net loss in Q2 2004 was primarily due to lower impairment charges on non-marketable equity securities (approximately $33 million in Q2 2004 and $64 million in Q2 2003). The lower net loss in Q2 2004 was also a result of lower mark to market losses on certain equity derivatives and higher gains on equity transactions.

Our effective income tax rate was 27.4% for Q2 2004, compared to 29.5% for Q2 2003. The rate for 2004 was lower than the rate in the prior year due to reversals of previously accrued taxes, including $62 million primarily related to the closing of a state income tax audit, as well as an adjustment to increase the estimated tax benefit for export sales. The impact of these items was partially offset by a greater portion of our profits being generated in higher tax jurisdictions.

Results of Operations – First Half of 2004 Compared to First Half of 2003

The following table sets forth certain consolidated statements of income data as a percentage of net revenue for the periods indicated:

	YTD 2004	YTD 2003
Net revenue	**100.0%**	**100.0%**
Cost of sales	40.2%	48.6%
Gross margin	**59.8%**	**51.4%**
Research and development	14.8%	15.1%
Marketing, general and administrative	14.3%	15.4%
Impairment of goodwill	—	—
Amortization of acquisition-related intangibles and costs	0.6%	1.2%
Purchased in-process research and development	—	—
Operating income	**30.1%**	**19.7%**

The following table sets forth information on our geographic regions for the periods indicated:

	YTD 2004		YTD 2003	
(Dollars In Millions)	Revenue	% of Total	Revenue	% of Total
Americas	$ 4,119	26%	$ 3,879	29%
Asia-Pacific	6,945	43%	5,420	40%
Europe	3,592	22%	3,059	22%
Japan	1,484	9%	1,209	9%
Total	**$ 16,140**	**100%**	**$ 13,567**	**100%**

Our net revenue of $16.1 billion in the first half of 2004 increased 19% compared to the first half of 2003 primarily due to higher net revenue for the Intel Architecture business accompanied by higher revenue for ICG.

All of our geographic regions experienced increased revenue in the first half of 2004 compared to the first half of 2003. Our Asia-Pacific region's revenue comprised the largest portion of our total revenue and increased 28%, reflecting both growth in local consumption and movement of more of the production for our customers' PC supply chain to Asia. Japan experienced substantial revenue growth with an increase of 23%, Europe revenue increased 17%, and the Americas region revenue increased 6%. We experienced growth in both mature markets and emerging markets, led by growth in China, in the first half of 2004 compared to the first half of 2003.

Our overall gross margin percentage increased to 59.8% for the first half of 2004 from 51.4% in the first half of 2003. Gross margin for the Intel Architecture business was higher and the gross margin percentage in our communications business was lower. See "Business Outlook" for a discussion of gross margin expectations.

Intel Architecture Business

The revenue and operating income for the Intel Architecture operating segment for the first half of 2004 and 2003 were as follows:

(In Millions)	YTD 2004	YTD 2003
Microprocessor revenue	$ 11,731	$ 9,704
Chipset, motherboard and other revenue	2,068	1,918
Net revenue	$ 13,799	$ 11,622
Operating income	$ 5,796	$ 3,734

Net revenue for the Intel Architecture operating segment increased by $2.2 billion, or 19%, in the first half of 2004 compared to the first half of 2003, primarily due to higher unit sales for microprocessors, reflecting the overall economic recovery.

Operating income increased to $5.8 billion in the first half of 2004 compared to $3.7 billion in the first half of 2003. The increase was primarily due to the impact of higher revenue and lower unit costs for microprocessors, as well as approximately $200 million of lower manufacturing startup costs in the first half of 2004 primarily related to the ramp of 90-nanometer technology on 300-millimeter wafer manufacturing in 2003. These increases in operating income were partially offset by a $162 million charge in Q1 2004 relating to a settlement agreement with Intergraph Corporation.

Intel Communications Group

The revenue and operating loss for the ICG operating segment for the first half of 2004 and 2003 were as follows:

(In Millions)	YTD 2004	YTD 2003
Net revenue	$ 2,336	$ 1,920
Operating loss	$ (345)	$ (473)

Net revenue increased by $416 million or 22%, in the first half of 2004 compared to the first half of 2003, primarily due to higher revenue from sales of flash memory products, embedded processing components and wireless connectivity products. Revenue from flash memory products increased to $1.0 billion in the first half of 2004 from $819 million in the first half of 2003.

The operating loss decreased to $345 million in the first half of 2004 from a loss of $473 million in the first half of 2003. Higher revenue, as well as approximately $140 million from lower inventory write-offs for flash memory products due to improved demand and sales of flash memory product inventory that had been previously reserved, contributed to the lower operating loss. In addition, the absence of costs incurred in the first half of 2003 for under-utilized factory capacity for flash memory products improved the operating results. These improvements were partially offset by higher costs for flash memory products as we sold higher density products, as well as the impact of higher inventory write-offs, primarily for certain applications and cellular processors.

Operating Expenses

Operating expenses for the first half of 2004 and 2003 were as follows:

(In Millions)	YTD 2004	YTD 2003
Research and development	$ 2,381	$ 2,048
Marketing, general and administrative	$ 2,311	$ 2,091
Impairment of goodwill	$ —	$ 6
Amortization of acquisition-related intangibles and costs	$ 101	$ 168

Research and development spending increased $333 million, or 16%, in the first half of 2004 compared to the first half of 2003. This increase was primarily due to higher expenses related to development for manufacturing process technologies, including the 65-nanometer process on 300-millimeter wafers, and higher expenses for product development programs in the Intel Architecture business, as well as higher profit-dependent compensation expenses. Marketing, general and administrative expenses increased $220 million, or 11%, in the first half of 2004 compared to the first half of 2003, primarily due to higher cooperative advertising expenses, as a result of higher revenue in our Intel Architecture business and as our customers used a higher percentage of their available Intel Inside® program funds, and increased profit-dependent compensation expenses. Research and development along with marketing, general and administrative expenses were 29% of net revenue in the first half of 2004 and 31% of net revenue in the first half of 2003.

Amortization of acquisition-related intangibles and costs was $101 million in the first half of 2004 compared to $168 million in the first half of 2003, as a portion of the intangibles related to prior acquisitions became fully amortized.

Gains (Losses) on Equity Securities, Interest and Other, and Taxes

Gains (losses) on equity securities, net, interest and other, net and taxes for the first half of 2004 and 2003 were as follows:

(In Millions)	YTD 2004	YTD 2003
Gains (losses) on equity securities, net	$ 11	$ (185)
Interest and other, net	$ 96	$ 105
Provision for taxes	$ 1,477	$ 776

Gains (losses) on equity securities and certain equity derivatives for the first half of 2004 was a net gain of $11 million compared to a net loss of $185 million for the first half of 2003. The improvement was primarily driven by lower impairment charges on non-marketable equity securities (approximately $44 million for the first half of 2004 and $204 million for the first half of 2003). The net loss for the first half of 2003 included mark to market losses on certain equity and equity derivatives offset by gains on equity transactions in 2003.

Our effective income tax rate was 29.8% for the first half of 2004, compared to 30.0% for the first half of 2003. The rate for the first half of 2004 was lower than the rate in the prior year due to reversal of previously accrued taxes of $62 million, primarily related to the closing of a state income tax audit, partially offset by a greater portion of our profits being generated in higher tax jurisdictions.

Financial Condition

Our financial condition remains strong. At June 26, 2004, cash, short-term investments and fixed income instruments included in trading assets totaled $16.7 billion, up from $15.9 billion at December 27, 2003. Total short-term and long-term debt was $1.1 billion and represented 3% of stockholders' equity at June 26, 2004 ($1.2 billion and represented 3% of stockholders' equity at December 27, 2003).

For the first half of 2004, cash provided by operating activities was $5.8 billion ($4.4 billion for the first half of 2003). Cash was provided by net income adjusted for non-cash related items. Uses of cash for net working capital included increases in accounts receivable and inventories and decreases in accrued compensation and benefits, partially offset by increases in income taxes payable and accounts payable. Accounts receivable increased over December 2003 levels, primarily due to a higher proportion of sales occurring toward the end of the current quarter. The days sales outstanding remained the same at 36 days. Our three largest customers accounted for approximately 42% of net revenue for the first half of 2004, with one of these customers accounting for approximately 19% of revenue and another customer accounting for approximately 15%. For the first half of 2003, our three largest customers accounted for approximately 40% of net revenue. Additionally, those three largest customers accounted for approximately 48% of net accounts receivable at June 26, 2004 (43% at December 27, 2003). Our inventory levels were higher by 28% at the end of the second quarter of 2004 compared to December 2003 as yields improved and we continued to ramp new products for sale in the remainder of 2004. Approximately half of the increase was for microprocessors and the other half was split between flash memory and chipsets. During the second half of the year, we expect to lower the inventory levels of microprocessors by slowing the planned growth rate of wafer starts for these products. Accrued compensation and benefits decreased during the first half of 2004 as we paid year-end bonuses and made the annual cash contribution to our profit sharing plan. The increase in the accrual for income taxes payable is due to the timing of payments and refunds. Accounts payable increased at the end of the second quarter of 2004 compared to December 2003 primarily due to the timing of capital expenditures.

We used $3.7 billion in net cash for investing activities during the first half of 2004, compared to $1.3 billion during the first half of 2003. Improved corporate credit profiles facilitated a slight shift in our portfolio of investments in debt securities to longer term maturities. Capital expenditures decreased to $1.7 billion in the first half of 2004 from $1.9 billion in the first half of 2003. We continued to invest in capital equipment and construction, primarily for additional microprocessor manufacturing capacity, but at a lower rate than in the same period for the prior year.

We used $3.0 billion in net cash for financing activities in the first half of 2004, compared to $2.1 billion in the first half of 2003. The major financing use of cash was for the repurchase of shares as we repurchased 105.2 million shares of common stock for $3.0 billion compared to 114.4 million shares for $2.0 billion in the same period in 2003. As of June 26, 2004, approximately 309 million shares remained available for repurchase under the existing repurchase authorization.

Additional financing uses of cash in the first half of 2004 included payments of dividends. In January 2004, our Board of Directors approved an increase in the quarterly cash dividend from $0.02 per share to $0.04 per share, effective for the first-quarter 2004 dividend. Therefore, our dividend payments were $517 million in the first half of 2004, higher than the $262 million paid in the same period of the prior year. Financing sources of cash during the first half of 2004 were primarily $552 million in proceeds from the sale of shares pursuant to employee stock plans ($353 million during the first half of 2003).

Another potential source of liquidity is authorized borrowings, including commercial paper, of $3.0 billion. There were no borrowings under our commercial paper program during the first half of 2004. We also maintain the ability to offer an aggregate of approximately $1.4 billion in debt, equity and other securities under U.S. Securities and Exchange Commission (SEC) shelf registration statements.

We believe that we have the financial resources needed to meet our business requirements for the next twelve months, including capital expenditures for the expansion or upgrading of worldwide manufacturing and assembly and test capacity, working capital requirements, the dividend program, potential stock repurchases and potential future acquisitions or strategic investments.

Employee Equity Incentive Plans

Our equity incentive program is a broad-based, long-term retention program that is intended to attract and retain talented employees and align stockholder and employee interests. Substantially all of our employees participate in our equity incentive program. In May 2004, stockholder approval was obtained for the 2004 Equity Incentive Plan (the 2004 Plan). Under the 2004 Plan, 240 million shares of common stock were made available for issuance during the two year period ending June 30, 2006. Under the 2004 Plan, options to purchase shares may be granted to all employees and non-employee directors. In addition to stock options, other equity incentive award types, such as restricted stock, stock units and stock appreciation rights, may also be used. The 2004 Plan also allows for performance-based vesting for equity incentive awards. The Intel Corporation 1984 Stock Option Plan expired in May 2004, and the Intel Corporation 1997 Stock Option Plan was terminated upon stockholder approval of the 2004 Plan. Shares previously authorized for issuance under these plans are no longer available for future grants.

Options granted by the company under the 2004 Plan will generally expire seven years from the grant date. Options granted under our previous stock option plans generally expired ten years from the grant date. Options granted to existing and newly hired employees generally vest over a four year period from the date of grant. Certain grants to key employees expire ten years from the date of grant and have delayed vesting generally beginning six years from the date of grant.

We have a goal to keep the potential incremental dilution related to our option program to a long-term average of less than 2% annually. The dilution percentage is calculated using the new option grants for the year, net of options forfeited by employees leaving the company and options expired, divided by the total outstanding shares at the beginning of the year.

Options granted to employees, including officers, and non-employee directors from 2000 through the first half of 2004 are summarized as follows:

(Shares in Millions)	YTD 2004	2003	2002	2001	2000
Total options granted[1]	95	110	174	238	163
Less options forfeited[1]	(15)	(40)	(44)	(47)	(31)
Net options granted	80	70	130	191	132
Net grants as % of outstanding shares[2]	1.2%	1.1%	1.9%	2.8%	2.0%
Grants to listed officers[3] as % of total options granted	1.1%	2.4%	1.7%	0.8%	0.4%
Grants to listed officers as % of outstanding shares	<0.1%	<0.1%	<0.1%	<0.1%	<0.1%
Cumulative options held by listed officers as % of total options outstanding	2.1%	2.1%	2.1%	2.0%	2.4%

[1]*Excluding options assumed in connection with acquisitions.*
[2]*Outstanding shares as of the beginning of each period.*
[3]*"Listed officers" for 2004 are those listed in our proxy statement dated March 31, 2004, defined as our Chief Executive Officer and each of the four other most highly compensated executive officers.*

In accordance with a policy established by the Compensation Committee of the Board of Directors, total options granted to the listed officers may not exceed 5% of total options granted in any year. For the first six months of 2004, options granted to listed officers amounted to 1.1% of the grants made to all employees. All stock option grants are made after a review by, and with the approval of, the Compensation Committee. All members of the Compensation Committee are independent directors, as defined in the applicable rules for issuers traded on The NASDAQ Stock Market*.

For additional information regarding stock option plans and plan activity for the first half of 2004 and for 2003, see "Note 3: Employee Equity Incentive Plans" in the Notes to the Consolidated Condensed Financial Statements in this quarterly report. Information regarding our stock option plan should be read in connection with the information appearing under the heading "Report of the Compensation Committee on Executive Compensation" in our 2004 Proxy Statement.

In-the-money and out-of-the-money[1] option information for total options outstanding as of June 26, 2004 was as follows:

	Exercisable		Unexercisable		Total	
(Shares in Millions)	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
In-the-money	264.6	$ 16.83	396.2	$ 22.58	660.8	$ 20.28
Out-of-the-money	103.6	$ 39.04	131.8	$ 45.80	235.4	$ 42.83
Total options outstanding	**368.2**	**$ 23.08**	**528.0**	**$ 28.38**	**896.2**	**$ 26.20**

[1] *Out-of-the-money options have an exercise price equal to or above $27.78, the closing price of Intel stock on June 25, 2004 as reported on The NASDAQ Stock Market*.*

Options granted to listed officers as a group for the first half of 2004 were as follows:

Number of Securities Underlying Option Grants	Percent of Total Options Granted to Employees	Exercise Price Per Share	Expiration Date	Potential Realizable Values at Assumed Annual Rates of Stock Price Appreciation for Option Term[1] 5%	10%
1,050,000	1.1%	$ 27.00	2014	$ 17,825,900	$ 45,174,200

[1] *Represents gains that could accrue for these options, assuming that the market price of Intel common stock appreciates over a period of 10 years at annualized rates of 5% and 10% from the date of grant. If the stock price does not increase above the exercise price, the realized value from these options would be zero.*

Option exercises for the first half of 2004 and option values for listed officers as a group as of June 26, 2004 were as follows:

		Number of Shares Underlying Unexercised Options at June 26, 2004		Values of Unexercised In-the-Money Options at June 26, 2004 [1]	
Shares Acquired on Exercise	Value Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
576,000	$ 16,024,000	9,169,900	9,488,300	$ 114,366,800	$ 50,423,900

[1] *These amounts represent the difference between the exercise price and $27.78, the closing price of Intel stock on June 25, 2004 as reported on The NASDAQ Stock Market*, for all in-the-money options held by the listed officers.*

Information as of June 26, 2004 regarding equity compensation plans approved and not approved by stockholders is summarized in the following table (shares in millions):

Plan Category	(A) Number of Shares to be Issued Upon Exercise of Outstanding Options	(B) Weighted-Average Exercise Price of Outstanding Options	(C) Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in Column A)
Equity compensation plans approved by stockholders	146.3	$ 17.84	316.3[1]
Equity compensation plans not approved by stockholders	742.3	$ 27.95	—
Total	**888.6**[2]	**$ 26.28**	**316.3**

[1] *Includes 76.4 million shares available under our 1976 Employee Stock Participation Plan.*
[2] *Total excludes 7.6 million shares issuable under outstanding options, with a weighted average exercise price of $16.73, originally granted under plans we assumed in connection with acquisitions. We do not intend to grant any further options under these plans.*

Business Outlook

As we look ahead to the rest of 2004, we are planning for growth in annual revenue made possible by an improved economic climate, and further progress in growing overall gross margin dollars. For the third quarter of 2004, we expect revenue to be between $8.6 billion and $9.2 billion, compared to second quarter revenue of $8.05 billion. The midpoint of this range would be a sequential increase of more than 10%, which is higher than our average seasonal increase. This revenue expectation assumes slightly above normal seasonality for Intel Architecture products along with good growth in flash and other ICG products in the third quarter of 2004. Although the communications market segment is beginning to experience some signs of growth, ICG revenue is largely dependent on our continuing to secure design wins on new and existing products, to supply the products for these design wins and on OEMs taking the product designs to production. Demand for our flash memory products is uncertain in the highly competitive cellular handset market segment. Revenue growth for our flash memory products is largely dependent on customer demand for higher density flash memory and continued end user adoption of new leading-edge cellular handsets.

Our financial results are substantially dependent on sales of microprocessors and related components by the Intel Architecture operating segment. Revenue is partly a function of the mix of microprocessor types and speeds sold as well as the mix of related chipsets and motherboards, all of which are difficult to forecast. Because of the wide price differences among desktop, mobile and server microprocessors, the mix of types and speeds of microprocessors sold affects the average selling price that we will realize and has a large impact on our revenue and gross margin. Microprocessor revenue is also dependent on the availability of other parts of the system platform, including chipsets, motherboards, operating system software and application software. Revenue is also affected by our sales of other semiconductor and non-semiconductor products and is subject to the impact of economic conditions in various geographic regions.

We expect the gross margin percentage in the third quarter of 2004 to be approximately 60%, plus or minus a couple of points, approximately flat compared to 59.4% in the second quarter. For the full year of 2004, our gross margin is expected to be 60%, plus or minus a couple of points. This expectation is lower than our previous expectation of 62%, plus or minus a few points. Our expectation incorporates the effect of higher revenues, offset by two other factors. First, we anticipate increased revenues from flash, chipsets, and motherboards, and as these products grow at a faster rate than microprocessors, our overall revenue mix will have a greater proportion of lower margin products. Second, higher yields on our 90-nanometer, 300mm microprocessors have caused increased inventory levels; however, we plan to lower the inventory levels of microprocessors by slowing the growth rate of wafer starts and this will slow the rate of reduction in microprocessor unit costs. In addition, downward pressure on average selling prices will have an impact on margins in the second half of the year. Our gross margin varies primarily with revenue levels, which are dependent on unit volumes and prices, as well as the mix of types and speeds of processors sold, and the mix of microprocessors, related chipsets and motherboards, and other semiconductor and non-semiconductor products. Our gross margin should benefit in the future from the productive use of 90-nanometer technology and 300mm wafers, as we build more of our mainstream products with these technologies. Variability of other factors will also continue to affect cost of sales and the gross margin percentage, including unit costs and yield issues associated with production at our factories, timing and execution of the manufacturing ramp including the continuing ramp of the 90-nanometer process technology, excess of manufacturing capacity, the reusability of factory equipment, impairment of manufacturing or assembly and test assets, excess inventory, inventory obsolescence and variations in inventory valuation.

We have significantly expanded our semiconductor manufacturing and assembly and test capacity over the last few years, and we continue to plan capacity based on the assumed continued success of our overall strategy and the acceptance of our products in specific market segments. We currently expect that capital spending will be between $3.6 billion and $4.0 billion in 2004, compared to $3.7 billion in 2003. The midpoint of this range, $3.8 billion, is only slightly higher than 2003. This capital-spending plan is dependent on expectations regarding production efficiencies and delivery times of various machinery and equipment, and construction schedules for new facilities. If the demand for our products does not grow and continue to move toward higher performance products in the various market segments, revenue and gross margin would be adversely affected and manufacturing and/or assembly and test capacity would be under-utilized, and the rate of capital spending could be reduced. We could be required to record an impairment of our manufacturing or assembly and test equipment and/or facilities, or factory planning decisions may cause us to record accelerated depreciation. However, in the long term, revenue and gross margin may also be affected if we do not add capacity fast enough to meet market demand.

We expect depreciation expense to be between $1.1 billion and $1.2 billion for the third quarter of 2004 and $4.6 billion for the full year 2004.

Spending on research and development, plus marketing, general and administrative expenses in the third quarter of 2004 is expected to be approximately $2.5 billion, slightly higher than the second quarter. Expenses, particularly certain marketing and compensation-related expenses, may vary from this expectation, depending in part on the level of revenue and profits.

Research and development spending is expected to be approximately $4.8 billion in 2004.

Based on acquisitions completed through July 28, 2004, we expect amortization of acquisition-related intangibles and costs to be approximately $40 million in the third quarter and $175 million for the full year 2004.

We expect the net gains from equity securities and interest and other for the third quarter of 2004 to be approximately $50 million. Our expectations for gains (losses) from equity securities include impairment charges on private equity investments and are based on our experience. It is not possible to know at the present time whether specific investments are likely to be impaired or the extent or timing of individual impairments. In addition, our expectations for gains or losses from equity securities and interest and other assume no unanticipated events and vary depending on equity market levels and volatility, gains or losses realized on the sale or exchange of securities, interest rates, cash balances, and changes in the fair value of derivative instruments.

At June 26, 2004, we held non-marketable equity securities with a carrying value of $627 million. A number of these companies are expected to fail. Their success (or lack thereof) is dependent upon product development, market acceptance, operational efficiency and other key business success factors. In addition, depending on their future prospects, they may not be able to raise additional financings when needed or they may receive lower valuations, with less favorable investment terms than in previous financings, and the investments would likely become impaired. However, we are not able determine at the present time which specific investments are likely to be impaired in the future, or the extent or timing of individual impairments.

We currently expect our effective tax rate for the third and fourth quarters of 2004 to be approximately 31%, as compared to the previous expectation of approximately 32%, primarily due to an increase in estimated tax benefit for export sales. The estimated effective tax rate is based on current expected income, and assumes the company continues to receive the tax benefit for export sales (see "Note 14: Provision for Taxes" and "Note 15: Contingencies" in Notes to Consolidated Condensed Financial Statements). The tax rate may be affected by changes in tax law, the closing of acquisitions or divestitures, the jurisdictions in which profits are determined to be earned and taxed, the resolution of issues arising from tax audits with various tax authorities and the ability to realize deferred tax assets.

As of June 26, 2004, we have approximately $3.7 billion of goodwill remaining on our balance sheet, of which $3.2 billion is related to the ICG operating segment and $533 million is related to the Intel Architecture operating segment. Particularly for ICG, we may incur charges for the impairment of goodwill in the future if the communications and mobile handheld computing sectors do not grow as we expect, if ICG fails to deliver new products, if the products fail to gain expected market acceptance, if we fail to achieve our assumed revenue growth rates or assumed gross margin, or if interest rates increase significantly.

We are currently a party to various legal proceedings and claims, including legal proceedings and claims related to taxes and to allegations of patent infringement. Management does not believe that the ultimate outcome of these legal proceedings and claims will have a material adverse effect on our financial position or overall trends in results of operations. However, litigation is subject to inherent uncertainties and unfavorable rulings could occur. An unfavorable ruling could include monetary damages, invalidation of a patent or group of patents, additional taxes owed or, in cases where injunctive relief is sought, an injunction prohibiting Intel from selling one or more products. If an unfavorable ruling were to occur in any specific period, there exists the possibility of a material adverse impact on the results of operations of that period or future periods. Management believes that, given our current liquidity and cash and investment balances, even an adverse judgment would not have a material impact on cash and investments or liquidity.

We have filed and obtained a number of patents in the U.S. and abroad, and if we determine that it is necessary or desirable, we may seek licenses for patents and other intellectual property rights from others. While our patents and the intellectual property licenses we obtain are an important element of our success, our business as a whole is not materially dependent on any one patent. However, an injunction preventing us from selling products based on one or more patents could have a material adverse effect upon our business. There is no assurance that we will be able to obtain patents covering our own products. We can also give no assurance that we will be able to obtain licenses from any intellectual property owner where needed, or that we can accept the terms of any offered licenses. Further, we are not typically able to resolve every dispute without litigation, which is generally time-consuming and expensive. If we are not ultimately successful in defending ourselves against these claims in litigation, we may not be able to sell a particular product or family of products due to an injunction, or we may have to pay material amounts of damages.

Our sales agreements often contain intellectual property indemnities, such as patent and copyright indemnities, and our customers may assert claims against us for indemnity when they receive claims from other intellectual property owners alleging that our customers' products infringe such others' intellectual property rights. When we receive such claims, we refer them to our counsel. Current claims are in various stages of evaluation, negotiation and litigation. Such claims may result in our participation in or defense against the claims asserted against our customers by such other intellectual property owners, including participation in and defense of litigation against our customers.

We operate globally, with sales offices and research and development as well as manufacturing and assembly and test facilities in many countries, and, as a result, we are subject to risks and factors associated with doing business outside the U.S. Global operations involve inherent risks that include currency controls and fluctuations, tariff and import regulations, and regulatory requirements that may limit our or our customers' ability to manufacture, assemble and test, design, develop or sell products in particular countries. If terrorist activity, armed conflict, civil or military unrest, or political instability occurs in the U. S., Israel or other locations, such events may disrupt manufacturing, assembly and test, logistics, security and communications, and could also result in reduced demand for Intel's products. The impacts of major health concerns, or of large-scale outages or interruptions of service from utility or other infrastructure providers, on Intel, its suppliers, customers or other third parties could also adversely affect our business and impact customer order patterns. We could also be affected if labor issues disrupt our transportation arrangements or those of our customers or suppliers. On a worldwide basis, we regularly review our key infrastructure, systems, services and suppliers, both internally and externally, to seek to identify significant vulnerabilities as well as areas of potential business impact if a disruptive event were to occur. Once identified, we assess the risks, and as we consider it to be appropriate, we initiate actions intended to reduce the risks and their potential impact. However, there can be no assurance that we have identified all significant risks or that we can mitigate all identified risks with reasonable effort.

Our future results of operations and the other forward-looking statements contained in this filing, including this MD&A, involve a number of risks and uncertainties—in particular, the statements regarding our goals and strategies, new product introductions, plans to cultivate new businesses, market segment share and growth rate assumptions, future economic conditions and recovery in the communications businesses, revenue, pricing, gross margin and costs, capital spending, depreciation and amortization, research and development expenses, potential impairment of investments, the tax rate and pending tax and legal proceedings. In addition to various factors that we have discussed above, a number of other factors could cause actual results to differ materially from our expectations. Demand for our products, which impacts our revenue and gross margin percentage, is affected by business and economic conditions, as well as computing and communications industry trends and the development and timing of introduction of compelling software applications and operating systems that take advantage of the features of our products. Demand for our products is also affected by changes in customer order patterns, such as changes in the levels of inventory maintained by our customers and the timing of customer purchases. Revenue and gross margin could also be affected by competitive factors, such as competing chip architectures and manufacturing technologies, competing software-compatible microprocessors, pricing pressures and other competitive factors, as well as market acceptance of our new products in specific market segments, the availability of sufficient inventory to meet demand and the availability of externally purchased components or materials. Our future revenue is also dependent on continuing technological advancement, including developing and implementing new processes and strategic products, as well as the timing of new product introductions, sustaining and growing new businesses, and integrating and operating any acquired businesses. Our results could also be affected by adverse effects associated with product defects and errata (deviations from published specifications) and by litigation or regulatory matters involving intellectual property, stockholder, consumer, antitrust and other issues.

We believe that we have the product offerings, facilities, personnel, and competitive and financial resources for continued business success, but future revenue, costs, margins and profits are all influenced by a number of factors, including those discussed above, all of which are inherently difficult to forecast.

Status of Business Outlook and Scheduled Business Update

We expect that our corporate representatives will from time to time meet privately with investors, investment analysts, the media and others, and may reiterate the forward-looking statements contained in the "Business Outlook" section and elsewhere in this Form 10-Q, including any such statements that are incorporated by reference in this Form 10-Q. At the same time, we will keep this Form 10-Q and our then current Business Outlook publicly available on our Investor Relations web site (www.intc.com). The public can continue to rely on the Business Outlook published on the web site as representing our current expectations on matters covered, unless we publish a notice stating otherwise. The statements in Business Outlook and other forward-looking statements in this Form 10-Q are subject to revision during the course of the year in our quarterly earnings releases and SEC filings, our mid-quarter business updates and at other times.

We intend to publish a Mid-Quarter Business Update on September 2, 2004. From the close of business on August 27, 2004 until publication of the Update, we will observe a "Quiet Period" during which the Business Outlook and other forward-looking statements published in our earnings press releases on January 14, 2004, April 13, 2004 and July 13, 2004, as reiterated or updated, as applicable, in our filings with the SEC on Forms 10-K and 10-Q, should be considered historical, speaking as of prior to the Quiet Period only and not subject to update. During the Quiet Period, our representatives will not comment on the Business Outlook or our financial results or expectations.

A Quiet Period operating in similar fashion with regard to the Business Outlook and our SEC filings will begin at the close of business on September 10, 2004 and will extend until the day when our next quarterly Earnings Release is published, presently scheduled for October 12, 2004.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information in this section should be read in connection with the information on financial market risk related to changes in interest rates and non-U.S. currency exchange rates in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the year ended December 27, 2003.

We have a portfolio of strategic equity investments that includes marketable strategic equity securities and equity derivative instruments such as warrants and options, as well as non-marketable equity investments. We invest in companies that develop software, hardware and other technologies or provide services supporting strategic technologies. This strategic investment program helps advance our overall mission to be the preeminent building block supplier to the worldwide Internet economy. Our current investment focus areas include: enabling mobile and Internet client devices, helping to create the digital home, advancing high-performance communications infrastructure and developing the next generation of silicon production technologies. Our focus areas tend to develop and change over time due to rapid advancements in the technology field.

To the extent that our portfolio of marketable investments continues to have strategic value, we typically do not attempt to reduce or eliminate our market exposure. For those securities that we no longer consider strategic, we evaluate market and economic factors in our decision on the timing of disposal and whether it is possible and appropriate to hedge the equity market risk prior to sale. As of June 26, 2004, the fair value of our portfolio of marketable equity investments and equity derivative instruments, including hedging positions, was $595 million.

To assess the market price sensitivity of our marketable portfolio, we analyzed the historical movements over the past several years of high-technology stock indices that we considered appropriate. Based on the analysis of these indices, we estimated that it was reasonably possible that the prices of the stocks in our portfolio could experience a 30% adverse change in the near term. However, our marketable portfolio is substantially concentrated in one company, which will affect the marketable portfolio's price volatility. We currently have an investment in Micron Technology, Inc. with carrying value of approximately $500 million, or 84% of the total value of the marketable portfolio including equity derivative instruments at June 26, 2004. The investment in Micron is part of our strategy to support the development and supply of DRAM products. We analyzed the historical volatility of Micron's stock, and if the stock behaves with the same price volatility that it has in the past, we could experience a 60% loss.

The table below presents the fair value and hypothetical loss for our marketable portfolio given the specified percentage decreases in equity prices. The estimated decreases reflect the impact of hedges and offsetting positions, and are not necessarily indicative of future performance. Actual results may differ materially.

		Hypothetical Loss	
(In Millions)	**Fair Value**	**30% Decrease**	**60% Decrease**
June 26, 2004	$ 595	$ (184)	$ (364)
December 27, 2003	$ 591	$ (161)	$ (318)

Our strategic investments in non-marketable equity securities would also be affected by an adverse movement of equity market prices, although the impact cannot be directly quantified. Such a movement and the related underlying economic conditions would negatively affect the prospects of the companies we invest in, their ability to raise additional capital and the likelihood of our being able to realize our investments through liquidity events such as initial public offerings, mergers and private sales. These types of investments involve a great deal of risk, and there can be no assurance that any specific company will grow or will be successful; consequently, we could lose all or part of our investment. At June 26, 2004, our strategic investments in non-marketable equity securities had a carrying amount of $627 million.

ITEM 4. CONTROLS AND PROCEDURES

Quarterly Controls Evaluation and Related CEO and CFO Certifications

We conducted an evaluation of the effectiveness of the design and operation of our “disclosure controls and procedures” (Disclosure Controls) as of the end of the period covered by this Quarterly Report. The controls evaluation was conducted under the supervision and with the participation of management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO).

Attached as exhibits to this Quarterly Report are certifications of the CEO and the CFO, which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (“Exchange Act”). This “Controls and Procedures” section includes the information concerning the controls evaluation referred to in the certifications, and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

Definition of Disclosure Controls

Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure Controls are also designed to reasonably assure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Our Disclosure Controls include components of our internal control over financial reporting, which consists of control processes designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the U.S. To the extent that components of our internal control over financial reporting are included within our Disclosure Controls, they are included in the scope of our quarterly controls evaluation.

Limitations on the Effectiveness of Controls

The company’s management, including the CEO and CFO, does not expect that our Disclosure Controls or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Scope of the Controls Evaluation

The evaluation of our Disclosure Controls included a review of the controls' objectives and design, the company's implementation of the controls and the effect of the controls on the information generated for use in this Quarterly Report. In the course of the controls evaluation, we sought to identify data errors, control problems or acts of fraud and confirm that appropriate corrective action, including process improvements, were being undertaken. This type of evaluation is performed on a quarterly basis so that the conclusions of management, including the CEO and CFO, concerning the effectiveness of the controls can be reported in our Quarterly Reports on Form 10-Q and to supplement our disclosures made in our Annual Report on Form 10-K. Many of the components of our Disclosure Controls are also evaluated on an ongoing basis by our Internal Audit Department and by other personnel in our Finance organization. The overall goals of these various evaluation activities are to monitor our Disclosure Controls, and to modify them as necessary. Our intent is to maintain the Disclosure Controls as dynamic systems that change as conditions warrant.

Conclusions

Based upon the controls evaluation, our CEO and CFO have concluded that, subject to the limitations noted above, as of the end of the period covered by this Quarterly Report, our Disclosure Controls were effective to provide reasonable assurance that material information relating to Intel and its consolidated subsidiaries is made known to management, including the CEO and CFO, particularly during the period when our periodic reports are being prepared.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Tax Matters

In August 2003, in connection with the Internal Revenue Service (IRS) regular examination of Intel's tax returns for the years 1999 and 2000, the IRS proposed certain adjustments to the amounts reflected by Intel on these returns as a tax benefit for its export sales. If the IRS issues formal assessments consistent with the notices and ultimately prevails in its position, Intel's federal income tax liability for these years would increase by approximately $600 million, plus interest. The IRS may make similar claims for years subsequent to 2000 in future audits.

Intel disputes the proposed adjustments and intends to pursue this matter through applicable IRS and judicial procedures, as appropriate. Although the final resolution of the proposed adjustments is uncertain, based on currently available information, management believes that the ultimate outcome will not have a material adverse effect on the company's financial position, cash flows or overall trends in results of operations. In the event of an unfavorable resolution, there exists the possibility of a material adverse impact on the results of operations of the period in which the matter is ultimately resolved, or an unfavorable outcome becomes probable and reasonably estimable.

Litigation

Intel currently is a party to various legal proceedings, including those noted below. While management presently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not have a material adverse effect on our financial position or overall trends in results of operations, litigation is subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include money damages or, in cases for which injunctive relief is sought, an injunction prohibiting Intel from selling one or more products. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on the net income of the period in which the ruling occurs or future periods.

MicroUnity, Inc. v. Intel Corporation, et al.
U.S. District Court, Eastern District of Texas

In March 2004, MicroUnity filed suit against Intel and Dell Inc. in the Eastern District of Texas. MicroUnity claims that certain Intel® Pentium® microprocessors infringe seven MicroUnity patents, and that certain Intel chipsets infringe one MicroUnity patent. MicroUnity also alleges that Dell products that contain these Intel products infringe the same patents. At Dell's request, Intel agreed to indemnify Dell with respect to MicroUnity's claims against Dell, subject to the terms of a prior agreement between Intel and Dell. MicroUnity seeks an injunction, unspecified damages, and attorneys' fees against both Intel and Dell. Intel disputes MicroUnity's claims and intends to defend the lawsuit vigorously.

Barbara Sales, et al. v. Intel Corporation, Gateway Inc., Hewlett-Packard Co. and HPDirect, Inc.
(formerly Deanna Neubauer, et al v. Intel Corporation, Gateway Inc., Hewlett-Packard Co. and HPDirect, Inc.)
Third Judicial Circuit Court, Madison County, Illinois

In June 2002, various plaintiffs filed a lawsuit in the Third Judicial Circuit Court, Madison County, Illinois, against Intel, Hewlett- Packard Company, HPDirect, Inc. and Gateway Inc., alleging that the defendants' advertisements and statements misled the public by suppressing and concealing the alleged material fact that systems containing Intel® Pentium® 4 processors are less powerful and slower than systems containing Intel® Pentium® III processors and a competitor's processors. In December 2003, the plaintiffs filed a motion for nationwide class certification of their claims against Intel Corporation. In April 2004, the plaintiffs filed a third amended complaint modifying their proposed classes to seek certification of a nationwide class of certain end use purchasers of specific first generation versions of Pentium 4 processors known internally as "Willamette" and computers containing such processors. In July 2004, the court certified an Illinois-only class of certain end use purchasers of Willamette Pentium 4 processors or computers containing such processors. The plaintiffs seek unspecified damages, and attorneys' fees and costs. The company disputes the plaintiffs' claims and intends to defend the lawsuit vigorously.

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

Issuer Purchases of Equity Securities

(Shares in Millions)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans
March 28, 2004–April 24, 2004	5.4	$ 26.75	5.4	359.4
April 25, 2004–May 22, 2004	36.1	$ 26.61	36.1	323.3
May 23, 2004–June 26, 2004	14.5	$ 27.95	14.5	308.8
Total	**56.0**	**$ 26.97**	**56.0**	

The company has an ongoing authorization, as amended, from the Board of Directors to repurchase shares of Intel's common stock in the open market or in negotiated transactions. The company's authorization is for up to 2.3 billion shares, which includes the most recent authorization in November 2002 to purchase an additional 480 million shares. We generally do not purchase stock during the quiet periods we have established in advance of the publication of our quarterly Earnings Release and Business Update release.

In 1996, the Board of Directors authorized the annual repurchase of up to 100,000 shares of Intel's common stock in the open market to be awarded to select employees in recognition of their outstanding achievements. During the second quarter of 2004, the company repurchased approximately 20,000 shares under this authorization at a cost of $0.6 million. These shares were awarded to employees who received Intel Achievement Awards. Intel Achievement Awards are given annually and represent Intel's highest honor for individuals and small teams for specific outstanding achievements that management believes have had a major impact on the company's operations.

Unregistered Sales of Equity Securities

On June 9, 2004, the company issued a total of 26,316 shares of unregistered Intel common stock at an exercise price of $5.43 per share to two warrant holders pursuant to the exercise of warrants issued in August 1999 in connection with the company's acquisition of Level One Communications, Inc. ("Level One") upon the exchange of warrants previously issued by Level One. The gross proceeds of $142,896 will be used for general corporate purposes. The issuance of unregistered Intel common stock in connection with the exercise of the warrants qualifies as an exempt transaction pursuant to Section 4(2) of the Securities Act of 1933, as amended ("Securities Act"). The company did not solicit or encourage the exercise of the warrant. Pursuant to the warrant, each warrant holder acknowledged that the shares to be issued upon exercise of the warrant could not be disposed of except in compliance with the Securities Act.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At Intel Corporation's Annual Stockholders' Meeting on May 19, 2004, stockholders elected each of the director nominees, ratified the selection of our independent auditors, and approved the 2004 Equity Incentive Plan and the nonbinding stockholder proposal to expense stock options, but did not approve the remaining stockholder proposals.

Our Board of Directors is analyzing how best to satisfy the advisory vote of our stockholders regarding expensing of stock options. The proposed stock option expensing rules from the Financial Accounting Standards Board (FASB) have not yet been finalized and Congress is also continuing its deliberations on legislative initiatives related to expensing. We are currently in the process of evaluating how we would implement expensing according to the current FASB proposals, but, in the opinion of management, the existing pricing models do not necessarily provide a reliable measure of the fair value of employee options. The company does not believe that it is in the best interests of our stockholders to implement expensing with one of the available option pricing methods until FASB and/or Congressional mandates are resolved.

	Number of Shares	
	Voted For	Withheld
1. To elect a board of directors to hold office until the next annual stockholders' meeting or until their respective successors have been elected or appointed.		
C. Barrett	5,609,071,711	174,568,743
C. Barshefsky	5,541,146,355	242,494,099
J. Browne	5,627,845,862	155,794,592
A. Grove	5,614,361,441	169,279,013
J. Guzy	4,774,298,076	1,009,342,378
R. Hundt	5,578,349,672	205,290,782
P. Otellini	5,597,105,603	186,534,851
D. Pottruck	5,667,833,187	115,807,267
J. Shaw	5,593,471,723	190,168,731
J. Thornton	5,646,809,706	136,830,748
D. Yoffie	5,632,081,317	151,559,137

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS (Continued)

	Number of Shares			
	Voted For	Voted Against	Abstain	Broker Non-Votes
2. To ratify selection of independent auditors.	5,622,141,592	108,985,180	52,484,631	29,051[1]
3. To approve the 2004 Equity Incentive Plan.	3,591,365,860	511,259,013	68,754,207	1,612,261,374[2]
4. To approve a non-binding proposal for the company to expense stock options in the income statement.	2,273,136,760	1,742,109,755	155,876,361	1,612,517,578[2]
5. To approve stockholder proposal requesting the use of performance-vesting stock.	1,557,282,976	2,502,714,023	111,281,476	1,612,361,979[2]
6. To approve stockholder proposal requesting the use of performance-based stock options.	1,683,695,452	2,373,565,059	113,910,322	1,612,469,621[2]

[1] Certain accounts have shared voting authority and some of these accounts submitted conflicting voting instructions on Proposal 2. ADP Investor Communications, the vote tabulator for certain beneficial ownership accounts, submitted these voting instructions as broker non-votes.

[2] Pursuant to Section 216 of the Delaware General Corporation Law, the affirmative vote of the majority of the votes cast was required to pass each of Proposals 3-6. Significantly fewer shares voted on each of Proposals 3-6 than voted on Proposal 1, the election of directors, and Proposal 2, the ratification of the selection of the company's auditors. "Broker non-votes" accounted for this difference in voted shares. For certain types of "non-routine" proposals, such as Proposals 3-6, brokers do not have the discretionary authority to vote their clients' shares, and therefore they must refrain from voting on such proposals in the absence of instructions from their clients.

ITEM 5. OTHER INFORMATION

1. On May 19, 2004, Intel's Bylaws were amended to decrease the number of authorized directors from 13 to 11. The amendment was approved by the Board of Directors in January 2004, to be effective after the Annual Stockholders' Meeting held May 19, 2004, as Charles E. Young and Winston H. Chen did not stand for reelection at the Annual Stockholders' Meeting.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

3.2	Intel Corporation Bylaws as amended on May 19, 2004 (incorporated by reference to Exhibit 4.2 of the company's Form S-8 as filed on May 19, 2004).
10.1	Intel Corporation Executive Officer Incentive Plan, as amended and restated effective January 1, 2004 (incorporated by reference to Exhibit 10.7 of the company's Form 10-K as filed on February 23, 2004 and amended on February 24, 2004).
10.2	Description of Bonus Terms under the Executive Officer Incentive Plan (EOIP).
10.3	Intel Corporation 2004 Equity Incentive Plan, effective May 19, 2004.
10.4	Intel Corporation Non-Employee Director Nonqualified Stock Option Agreement under the Intel Corporation 2004 Equity Incentive Plan.
10.5	Standard Terms and Conditions Relating to Nonqualified Stock Options granted to U.S. employees on and after May 19, 2004 under the Intel Corporation 2004 Equity Incentive Plan.
10.6	Standard International Nonqualified Stock Option Agreement under the Intel Corporation 2004 Equity Incentive Plan[1].
10.7	Notice of Grant of Nonqualified Stock Option under the Intel Corporation 2004 Equity Incentive Plan.
12.1	Statement Setting Forth the Computation of Ratios of Earnings to Fixed Charges.
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Exchange Act.
31.2	Certification of Chief Financial Officer and Principal Accounting Officer Pursuant to Rule 13a-14(a) of the Exchange Act.
32.1	Certification of Chief Executive Officer and Chief Financial Officer and Principal Accounting Officer Pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

[1] *Where applicable, Intel uses country-specific stock option agreements to comply with local laws. The company does not have any executive officers who have been granted stock options under a country-specific agreement.*

EXHIBITS AND REPORTS ON FORM 8-K (Continued)

(b) Reports on Form 8-K

1. On March 30, 2004, Intel furnished a report on Form 8-K relating to a settlement of the patent infringement suit between Intel Corporation and Intergraph Corporation pending in U.S. District Court for the Eastern District of Texas as presented in a press release of March 30, 2004.
2. On April 13, 2004, Intel furnished a report on Form 8-K relating to its financial information for the quarter ended March 27, 2004 and forward-looking statements relating to 2004 and the second quarter of 2004, as presented in a press release of April 13, 2004.
3. On June 3, 2004, Intel furnished a report on Form 8-K relating to an announcement regarding an update to forward-looking statements relating to 2004 and the second quarter of 2004, as presented in a press release of June 3, 2004.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTEL CORPORATION
(Registrant)

Date: July 30, 2004

By: /s/ Andy D. Bryant

Andy D. Bryant
Executive Vice President,
Chief Financial Officer and
Principal Accounting Officer

Exhibit 10.2

Description of Bonus Terms under the Executive Officer Incentive Plan (EOIP)

The Executive Officer Incentive Plan is an annual bonus program administered by the Compensation Committee (the “Committee”) of the Board of Directors. Terms of potential bonuses are established by the Committee early in each fiscal year (typically, in January), and are communicated to participating executives, but are not documented through a formal agreement with the executives. A description of the bonus arrangements under the EOIP is set forth below.

An executive’s potential bonus under the EOIP equals the individual’s incentive target multiplied by Intel’s EPS for the year and by a factor pre-established each year by the Committee (the “Performance Factor”), all of which are further explained below. The Committee designates the executives who are eligible to receive a bonus under the EOIP, each such individual’s incentive target amount and the Performance Factor for the year. At the end of each year, after the individual amounts payable under this formula are calculated, the Committee has the discretion to reduce (but not increase) a participant’s incentive payment. The EOIP does not specify criteria that the Committee must use in exercising its discretion to reduce EOIP payments, and it also does not require the Committee to make any reductions.

For purposes of the EOIP formula, EPS is the greater of (x) Intel’s operating income or (y) Intel’s net income divided by Intel’s weighted average common and common equivalent shares outstanding. Both operating income per share and adjusted net income per share are not defined under generally accepted accounting principles and are not deemed alternatives to measure performance under GAAP. The Committee may adjust Intel’s operating income or Intel’s net income based on objective criteria selected by the Committee in its sole discretion and in conformity with IRS regulations. These adjustments may include, but are not limited to: asset write-downs; litigation; claim judgments, settlements or tax settlements; the effects of tax law changes, changes in accounting principles or other such laws or provisions affecting reported results; accruals for reorganization and restructuring programs; unrealized gains or losses on investments; and any extraordinary non-recurring items as described in Accounting Principles Board Opinion No. 30 and/or in management’s discussion and analysis of financial condition and results of operations appearing in Intel’s annual report to stockholders for the applicable year. Operating income does not include gains or losses on equity securities or interest and other income earned by Intel, and does not include a deduction for interest expense and income taxes; as a result, EPS based on operating income generally exceeds EPS based on net income. The Performance Factor applied to EPS as mentioned above is a predetermined factor that considers market competitiveness of the participants’ base salary and incentive target amounts, forecasted EPS growth and performance probability, with the purpose of setting challenging employee performance expectations.

INTEL CORPORATION
2004 EQUITY INCENTIVE PLAN

1. PURPOSE

The purpose of this Intel Corporation 2004 Equity Incentive Plan (the “Plan”) is to advance the interests of Intel Corporation, a Delaware corporation, and its Subsidiaries (hereinafter collectively “Intel” or the “Corporation”), by stimulating the efforts of employees who are selected to be participants on behalf of Intel, aligning the long-term interests of participants with those of stockholders, heightening the desire of participants to continue in working toward and contributing to the success of Intel, assisting Intel in competing effectively with other enterprises for the services of new employees necessary for the continued improvement of operations, and to attract and retain the best available individuals for service as directors of the Corporation. This Plan permits the grant of stock options, stock appreciation rights, restricted stock and stock units, each of which shall be subject to such conditions based upon continued employment, passage of time or satisfaction of performance criteria as shall be specified pursuant to the Plan.

2. DEFINITIONS

(a) “Award” means a stock option, stock appreciation right, restricted stock or stock unit granted to a Participant pursuant to the Plan.

(b) “Board of Directors” means the Board of Directors of the Corporation.

(c) “Code” shall mean the Internal Revenue Code of 1986, as such is amended from time to time, and any reference to a section of the Code shall include any successor provision of the Code.

(d) “Committee” shall mean the committee appointed by the Board of Directors from among its members to administer the Plan pursuant to Section 3.

(e) “Exchange Act” shall mean the Securities Exchange Act of 1934, as amended from time to time, and any reference to a section of the Exchange Act shall include any successor provision of the Exchange Act.

(f) “Outside Director” shall mean a member of the Board of Directors who is not otherwise an employee of the Corporation.

(g) “Participants” shall mean those individuals to whom Awards have been granted from time to time and any authorized transferee of such individuals.

(h) “Performance Award” means an Award that vests only upon the satisfaction of one or more of the Qualifying Performance Criteria specified in Section 10(b).

(i) “Plan” means this Intel Corporation 2004 Equity Incentive Plan.

(j) “Share” shall mean a share of common stock, $.001 par value, of the Corporation or the number and kind of shares of stock or other securities which shall be substituted or adjusted for such shares as provided in Section 11.

(k) “Subsidiary” means any corporation or entity in which Intel Corporation owns or controls, directly or indirectly, fifty percent (50%) or more of the voting power or economic interests of such corporation or entity.

3. ADMINISTRATION

(a) Composition of Committee. This Plan shall be administered by the Committee. The Committee shall consist of two or more Outside Directors who shall be appointed by the Board of Directors. The Board of Directors shall fill vacancies on the Committee and may from time to time remove or add members of the Committee. The Board of Directors, in its sole discretion, may exercise any authority of the Committee under this Plan in lieu of the Committee’s exercise thereof and in such instances references herein to the Committee shall refer to the Board of Directors.

(b) Delegation and Administration. The Committee may delegate to one or more separate committees (any such committee a “Subcommittee”) composed of one or more directors of the Corporation (who may but need not be members of the Committee) the ability to grant Awards and take the other actions described in Section 3(c) with respect to Participants who are not executive officers, and such actions shall be treated for all purposes as if taken by the Committee. Any action by any such Subcommittee within the scope of such delegation shall be deemed for all purposes to have been taken by the Committee and references in this Plan to the Committee shall include any such Subcommittee. The Committee may delegate the administration of the Plan to an officer or officers of the Corporation, and such administrator(s) may have the authority to execute and distribute agreements or other documents evidencing or relating to Awards granted by the Committee under this Plan, to maintain records relating to the grant, vesting, exercise, forfeiture or expiration of Awards, to process or oversee the issuance of Shares upon the exercise, vesting and/or settlement of an Award, to interpret the terms of Awards and to take such other actions as the Committee may specify, provided that in no case shall any such administrator be authorized to grant Awards under the Plan. Any action by any such administrator within the scope of its delegation shall be deemed for all purposes to have been taken by the Committee and references in this Plan to the Committee shall include any such administrator, provided that the actions and interpretations of any such administrator shall be subject to review and approval, disapproval or modification by the Committee.

(c) Powers of the Committee. Subject to the express provisions and limitations set forth in this Plan, the Committee shall be authorized and empowered to do all things necessary or desirable, in its sole discretion, in connection with the administration of this Plan, including, without limitation, the following:

(i) to prescribe, amend and rescind rules and regulations relating to this Plan and to define terms not otherwise defined herein;

(ii) to determine which persons are Participants, to which of such Participants, if any, Awards shall be granted hereunder and the timing of any such Awards, and to grant Awards;

(iii) to grant Awards to Participants and determine the terms and conditions thereof, including the number of Shares subject to Awards and the exercise or purchase price of such Shares and the circumstances under which Awards become exercisable or vested or are forfeited or expire, which terms may but need not be conditioned upon the passage of time, continued employment, the satisfaction of performance criteria, the occurrence of certain events, or other factors;

(iv) to establish or verify the extent of satisfaction of any performance goals or other conditions applicable to the grant, issuance, exercisability, vesting and/or ability to retain any Award;

(v) to prescribe and amend the terms of the agreements or other documents evidencing Awards made under this Plan (which need not be identical);

(vi) to determine whether, and the extent to which, adjustments are required pursuant to Section 11;

(vii) to interpret and construe this Plan, any rules and regulations under this Plan and the terms and conditions of any Award granted hereunder, and to make exceptions to any such provisions in good faith and for the benefit of the Corporation; and

(viii) to make all other determinations deemed necessary or advisable for the administration of this Plan.

(d) Effect of Change in Status. The Committee shall have the discretion to determine the effect upon an Award and upon an individual's status as an employee under the Plan (including whether a Participant shall be deemed to have experienced a termination of employment or other change in status) and upon the vesting, expiration or forfeiture of an Award in the case of (i) any individual who is employed by an entity that ceases to be a Subsidiary of the Corporation, (ii) any leave of absence approved by the Corporation or a Subsidiary, (iii) any transfer between locations of employment with the Corporation or a Subsidiary or between the Corporation and any Subsidiary or between any Subsidiaries, (iv) any change in the Participant's status from an employee to a consultant or member of the Board of Directors, or vice versa, and (v) at the request of the Corporation or a Subsidiary any employee who becomes employed by any partnership, joint venture, corporation or other entity not meeting the requirements of a Subsidiary.

(e) Determinations of the Committee. All decisions, determinations and interpretations by the Committee regarding this Plan shall be final and binding on all Participants. The Committee shall consider such factors as it deems relevant to making such decisions, determinations and interpretations including, without limitation, the recommendations or advice of any director, officer or employee of the Corporation and such attorneys, consultants and accountants as it may select. A Participant or other holder of an Award may contest a decision or action by the Committee with respect to such person or Award only on the grounds that such decision or action was arbitrary or capricious or was unlawful, and any review of such decision or action shall be limited to determining whether the Committee's decision or action was arbitrary or capricious or was unlawful.

4. PARTICIPANTS

Awards under the Plan may be granted to any person who is an employee of the Corporation. Outside Directors may be granted Awards only pursuant to Section 8(i) of the Plan. The status of the Chairman of the Board of Directors as an employee or Outside Director shall be determined by the Committee. Any person designated by the Corporation as an independent contractor shall not be treated as an employee and shall not be eligible for Awards under the Plan.

5. EFFECTIVE DATE AND EXPIRATION OF PLAN

(a) Effective Date. This Plan was approved by the Board of Directors on February 20, 2004 and will become effective on May 19, 2004, subject to approval by the affirmative vote of the holders of a majority of the votes cast at the 2004 Annual Meeting of Stockholders.

(b) Expiration Date. The Plan shall remain available for the grant of Awards until June 30, 2006 or such earlier date as the Board of Directors may determine. The expiration of the Committee's authority to grant Awards under the Plan will not affect the operation of the terms of the Plan or the Corporation's and Participants' rights and obligations with respect to Awards granted on or prior to the expiration date of the Plan.

6. SHARES SUBJECT TO THE PLAN

(a) Aggregate Limits. Subject to adjustment as provided in Section 11, the aggregate number of Shares authorized for issuance as Awards under the Plan is 240,000,000, of which no more than an aggregate of 35,000,000 Shares may be issued as restricted stock or stock units and no more than an aggregate of 8,000,000 Shares shall be available for issuance as stock options under any program providing for stock option grants that vest in full in five or more years and that have a maximum term of ten years. The Shares subject to the Plan may be either Shares reacquired by the Corporation, including Shares purchased in the open market, or authorized but unissued Shares. Any Shares subject to an Award which for any reason expires or terminates unexercised or is not earned in full may again be made subject to an Award under the Plan.

(b) Tax Code Limits. The aggregate number of Shares subject to stock options or stock appreciation rights granted under this Plan during any calendar year to any one Participant shall not exceed 3,000,000. The aggregate number of Shares subject to restricted stock or stock unit Awards granted under this Plan during any calendar year to any one Participant shall not exceed 2,000,000. Notwithstanding anything to the contrary in this Plan, the foregoing limitations shall be subject to adjustment under Section 11, but only to the extent that such adjustment will not affect the status of any Award intended to qualify as "performance-based compensation" under Section 162(m) of the Code. The aggregate number of Shares issued pursuant to incentive stock options granted under the Plan shall not exceed 240,000,000, which limitation shall be subject to adjustment under Section 11 only to the extent that such adjustment is consistent with adjustments permitted of a plan authorizing incentive stock options under Section 422 of the Code.

7. PLAN AWARDS

(a) Award Types. The Committee, on behalf of the Corporation, is authorized under this Plan to grant, award and enter into the following arrangements or benefits under the Plan provided that their terms and conditions are not inconsistent with the provisions of the Plan: stock options, stock appreciation rights, restricted stock and stock units. Such arrangements and benefits are sometimes referred to herein as “Awards.” The Committee, in its discretion, may determine that any Award granted hereunder shall be a Performance Award.

(i) Stock Options. A “Stock Option” is a right to purchase a number of Shares at such exercise price, at such times, and on such other terms and conditions as are specified in or determined pursuant to the document(s) evidencing the Award (the “Option Agreement”). The Committee may grant Stock Options intended to be eligible to qualify as incentive stock options (“ISOs”) pursuant to Section 422 of the Code and Stock Options that are not intended to qualify as ISOs (“Non-qualified Stock Options”), as it, in its sole discretion, shall determine.

(ii) Stock Appreciation Rights. A “Stock Appreciation Right” or “SAR” is a right to receive, in cash or stock (as determined by the Committee), value with respect to a specific number of Shares equal to or otherwise based on the excess of (i) the market value of a Share at the time of exercise over (ii) the exercise price of the right, subject to such terms and conditions as are expressed in the document(s) evidencing the Award (the “SAR Agreement”).

(iii) Restricted Stock. A “Restricted Stock” Award is an award of Shares, the grant, issuance, retention and/or vesting of which is subject to such conditions as are expressed in the document(s) evidencing the Award (the “Restricted Stock Agreement”).

(iv) Stock Unit. A “Stock Unit” Award is an award of a right to receive, in cash or stock (as determined by the Committee) the market value of one Share, the grant, issuance, retention and/or vesting of which is subject to such conditions as are expressed in the document(s) evidencing the Award (the “Stock Unit Agreement”).

(b) Grants of Awards. An Award may consist of one of the foregoing arrangements or benefits or two or more of them in tandem or in the alternative.

8. GRANT, TERMS AND CONDITIONS OF STOCK OPTIONS AND SARS

The Committee may grant Stock Options or SARs at any time and from time to time prior to the expiration of the Plan to eligible Participants selected by the Committee. No Participant shall have any rights as a stockholder with respect to any Shares subject to Stock Options or SARs hereunder until said Shares have been issued. Each Stock Option or SAR shall be evidenced only by such agreements, notices and/or terms or conditions documented in such form (including by electronic communications) as may be approved by the Committee. Each Stock Option grant will expressly identify the Stock Option as an ISO or as a Non-qualified Stock Option. Stock Options or SARs granted pursuant to the Plan need not be identical but each must contain or be subject to the following terms and conditions:

(a) Price. The purchase price (also referred to as the exercise price) under each Stock Option or SAR granted hereunder shall be established by the Committee. The purchase price per Share shall not be less than 100% of the market value of a Share on the date of grant. For purposes of the Plan, "market value" shall mean the average of the high and low sales prices of the Corporation's common stock. The exercise price of a Stock Option shall be paid in cash or in such other form if and to the extent permitted by the Committee, including without limitation by delivery of already owned Shares, withholding (either actually or by attestation) of Shares otherwise issuable under such Stock Option and/or by payment under a broker-assisted sale and remittance program acceptable to the Committee.

(b) No Repricing. Other than in connection with a change in the Corporation's capitalization (as described in Section 11 of the Plan), the exercise price of an Option or SAR may not be reduced without stockholder approval.

(c) No Reload Grants. Stock Options shall not be granted under the Plan in consideration for and shall not be conditioned upon the delivery of Shares to the Corporation in payment of the exercise price and/or tax withholding obligation under any other employee stock option.

(d) Duration, Exercise and Termination of Stock Options and SARs. Each Stock Option or SAR shall be exercisable at such time and in such installments during the period prior to the expiration of the Stock Option or SAR as determined by the Committee. The Committee shall have the right to make the timing of the ability to exercise any Stock Option or SAR subject to continued employment, the passage of time and/or such performance requirements as deemed appropriate by the Committee. At any time after the grant of a Stock Option, the Committee may reduce or eliminate any restrictions on the Participant's right to exercise all or part of the Stock Option, except that no Stock Option shall first become exercisable within one (1) year from its date of grant, other than upon the death, disability or retirement of the person to whom the Stock Option was granted, in each case as specified in the Option Agreement.

Each Stock Option or SAR that vests in full in less than five (5) years (standard grants) must expire within a period of not more than seven (7) years from the grant date and each Stock Option or SAR that vests in full in five (5) or more years (long-term retention grants) must expire within a period of not more than ten (10) years from the grant date. In each case, the Option Agreement or SAR Agreement may provide for expiration prior to the end of the stated term of the Award in the event of the termination of employment or service of the Participant to whom it was granted.

(e) Suspension or Termination of Stock Options and SARs . If at any time (including after a notice of exercise has been delivered) the Committee, including any Subcommittee or administrator authorized pursuant to Section 3(b) (any such person, an “Authorized Officer”), reasonably believes that a Participant, other than an Outside Director, has committed an act of misconduct as described in this Section, the Authorized Officer may suspend the Participant’s right to exercise any Stock Option or SAR pending a determination of whether an act of misconduct has been committed. If the Committee or an Authorized Officer determines a Participant, other than an Outside Director, has committed an act of embezzlement, fraud, dishonesty, nonpayment of any obligation owed to Intel, breach of fiduciary duty or deliberate disregard of Corporation rules resulting in loss, damage or injury to the Corporation, or if a Participant makes an unauthorized disclosure of any Corporation trade secret or confidential information, engages in any conduct constituting unfair competition, induces any customer to breach a contract with the Corporation or induces any principal for whom Intel acts as agent to terminate such agency relationship, neither the Participant nor his or her estate shall be entitled to exercise any Stock Option or SAR whatsoever. Any determination by the Committee or an Authorized Officer with respect to the foregoing shall be final, conclusive, and binding on all interested parties. For any Participant who is an “executive officer” for purposes of Section 16 of the Exchange Act, the determination of the Committee or of the Authorized Officer shall be subject to the approval of the Board of Directors.

(f) Conditions and Restrictions Upon Securities Subject to Stock Options or SARs . Subject to the express provisions of the Plan, the Committee may provide that the Shares issued upon exercise of a Stock Option or SAR shall be subject to such further conditions or agreements as the Committee in its discretion may specify prior to the exercise of such Stock Option or SAR, including without limitation, conditions on vesting or transferability, forfeiture or repurchase provisions. The obligation to make payments with respect to SARs may be satisfied through cash payments or the delivery of Shares, or a combination thereof as the Committee shall determine. The Committee may establish rules for the deferred delivery of Common Stock upon exercise of a Stock Option or SAR with the deferral evidenced by use of “Stock Units” equal in number to the number of Shares whose delivery is so deferred.

(g) Other Terms and Conditions. Stock Options and SARs may also contain such other provisions, which shall not be inconsistent with any of the foregoing terms, as the Committee shall deem appropriate.

(h) ISOs. Stock Options intending to qualify as ISOs may only be granted to employees of the Corporation within the meaning of the Code, as determined by the Committee. No ISO shall be granted to any person if immediately after the grant of such Award, such person would own stock, including stock subject to outstanding Awards held by him or her under the Plan or any other plan established by the Corporation, amounting to more than ten percent (10%) of the total combined voting power or value of all classes of stock of the Corporation. To the extent that the Option Agreement specifies that a Stock Option is intended to be treated as an ISO, the Stock Option is intended to qualify to the greatest extent possible as an “incentive stock option” within the meaning of Section 422 of the Code, and shall be so construed; provided, however, that any such designation shall not be interpreted as a representation, guarantee or other undertaking on the part of the Corporation that the Stock Option is or will be determined to qualify as an ISO. If and to the extent that any Shares are issued under a portion of any Stock Option that exceeds the $100,000 limitation of Section 422 of the Code, such Shares shall not be treated as issued under an ISO notwithstanding any designation otherwise. Certain decisions, amendments, interpretations and actions by the Committee and certain actions by a Participant may cause a Stock Option to cease to qualify as an ISO pursuant to the Code and by accepting a Stock Option the Participant agrees in advance to such disqualifying action.

(i) Outside Director Stock Options. Each Outside Director shall be granted a Non-qualified Stock Option (an “Outside Director Option”) once each fiscal year for not more than 30,000 Shares, as determined by the Board of Directors, provided that if an Outside Director is elected to begin serving as a director on a date not coincident with the grant date for such annual grant, then he or she will be granted an initial Outside Director Option as of the date of the first meeting of the Board of Directors at which he or she serves for a prorated number of Shares based on the number of months remaining until the next annual Outside Director Option grant. Notwithstanding anything to the contrary in this Plan, the foregoing limitations shall be subject to adjustment under Section 11. The number of Shares subject to each Outside Director Option, or the formula pursuant to which such number shall be determined, the date of grant and the vesting, expiration and other terms applicable to such Stock Options shall be specified from time to time by the Board of Directors, subject to the terms of this Plan applicable to Stock Options in general.

9. GRANT, TERMS AND CONDITIONS OF RESTRICTED STOCK AND STOCK UNITS

The Committee may grant Restricted Stock or Stock Units at any time and from time to time prior to the expiration of the Plan to eligible Participants selected by the Committee. A Participant shall have rights as a stockholder with respect to any Shares subject to a Restricted Stock Award hereunder only to the extent specified in this Plan or the Restricted Stock Agreement evidencing such Award. Awards of Restricted Stock or Stock Units shall be evidenced only by such agreements, notices and/or terms or conditions documented in such form (including by electronic communications) as may be approved by the Committee. Awards of Restricted Stock or Stock Units granted pursuant to the Plan need not be identical but each must contain or be subject to the following terms and conditions:

(a) Terms and Conditions. Each Restricted Stock Agreement and each Stock Unit Agreement shall contain provisions regarding (a) the number of Shares subject to such Award or a formula for determining such, (b) the purchase price of the Shares, if any, and the means of payment for the Shares, (c) the performance criteria, if any, and level of achievement versus these criteria that shall determine the number of Shares granted, issued, retainable and/or vested, (d) such terms and conditions on the grant, issuance, vesting and/or forfeiture of the Shares as may be determined from time to time by the Committee, (e) restrictions on the transferability of the Shares and (f) such further terms and conditions as may be determined from time to time by the Committee, in each case not inconsistent with this Plan.

(b) Sale Price. Subject to the requirements of applicable law, the Committee shall determine the price, if any, at which Shares of Restricted Stock or Stock Units shall be sold or awarded to a Participant, which may vary from time to time and among Participants and which may be below the market value of such Shares at the date of grant or issuance.

(c) Share Vesting. The grant, issuance, retention and/or vesting of Shares under Restricted Stock or Stock Unit Awards shall be at such time and in such installments as determined by the Committee or under criteria established by the Committee. The Committee shall have the right to make the timing of the grant and/or the issuance, ability to retain and/or vesting of Shares under Restricted Stock or Stock Unit Awards subject to continued employment, passage of time and/or such performance criteria and level of achievement versus these criteria as deemed appropriate by the Committee, which criteria may be based on financial performance and/or personal performance evaluations. No condition that is based on performance criteria and level of achievement versus such criteria shall be based on performance over a period of less than one year and no condition that is based upon continued employment or the passage of time shall provide for vesting in full of a Restricted Stock or Stock Unit Award in less than pro rata installments over three years from the date the Award is made, other than with respect to such Awards that are issued upon exercise or settlement of Stock Options or SARs or upon the death, disability or retirement of the Participant, in each case as specified in the agreement evidencing such Award. Notwithstanding anything to the contrary herein, the performance criteria for any Restricted Stock or Stock Unit that is intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code shall be a measure based on one or more Qualifying Performance Criteria selected by the Committee and specified at the time the Restricted Stock Award is granted.

(d) Termination of Employment. The Restricted Stock or Stock Unit Agreement may provide for the forfeiture or cancellation of the Restricted Stock or Stock Unit Award, in whole or in part, in the event of the termination of employment or service of the Participant to whom it was granted.

(e) Stock Units. Except to the extent this Plan or the Committee specifies otherwise, Stock Units represent an unfunded and unsecured obligation of the Corporation and do not confer any of the rights of a stockholder until Shares are issued thereunder. Settlement of Stock Units upon expiration of the deferral or vesting period shall be made in Shares or otherwise as determined by the Committee. The number of Shares, or other settlement medium, to be so distributed may be increased by an interest factor or by dividend equivalents. Until a Stock Unit is so settled, the number of Shares represented by a Stock Unit shall be subject to adjustment pursuant to Section 11. Any Stock Units that are settled after the Participant’s death shall be distributed to the Participant’s designated beneficiary(ies) or, if none was designated, the Participant’s estate.

10. OTHER PROVISIONS APPLICABLE TO AWARDS

(a) Transferability. Unless the agreement or other document evidencing an Award (or an amendment thereto authorized by the Committee) expressly states that the Award is transferable as provided hereunder, no Award granted under this Plan, nor any interest in such Award, may be sold, assigned, conveyed, gifted, pledged, hypothecated or otherwise transferred in any manner prior to the vesting or lapse of any and all restrictions applicable thereto, other than by will or the laws of descent and distribution. The Committee may grant an Award or amend an outstanding Award to provide that the Award is transferable or assignable (a) in the case of a transfer without the payment of any consideration, to any "family member" as such term is defined in Section 1(a)(5) of the General Instructions to Form S-8 under the Securities Act of 1933, as such may be amended from time to time, and (b) in any transfer described in clause (ii) of Section 1(a)(5) of the General Instructions to Form S-8 under the 1933 Act as amended from time to time, provided that following any such transfer or assignment the Award will remain subject to substantially the same terms applicable to the Award while held by the Participant to whom it was granted, as modified as the Committee shall determine appropriate, and as a condition to such transfer the transferee shall execute an agreement agreeing to be bound by such terms; provided further, that an ISO may be transferred or assigned only to the extent consistent with Section 422 of the Code. Any purported assignment, transfer or encumbrance that does not qualify under this Section 10(a) shall be void and unenforceable against the Corporation.

(b) Qualifying Performance Criteria. For purposes of this Plan, the term "Qualifying Performance Criteria" shall mean any one or more of the following performance criteria, either individually, alternatively or in any combination, applied to either the Corporation as a whole or to a business unit or Subsidiary, either individually, alternatively or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group, in each case as specified by the Committee in the Award: (a) cash flow, (b) earnings per share, (c) earnings before interest, taxes and amortization, (d) return on equity, (e) total stockholder return, (f) share price performance, (g) return on capital, (h) return on assets or net assets, (i) revenue, (j) income or net income, (k) operating income or net operating income, (l) operating profit or net operating profit, (m) operating margin or profit margin, (n) return on operating revenue, (o) return on invested capital, (p) market segment share, (q) product release schedules, (r) new product innovation, (s) product cost reduction through advanced technology, (t) brand recognition/acceptance, (u) product ship targets, or (v) customer satisfaction. The Committee may appropriately adjust any evaluation of performance under a Qualifying Performance Criteria to exclude any of the following events that occurs during a performance period: (i) asset write-downs, (ii) litigation or claim judgments or settlements, (iii) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results, (iv) accruals for reorganization and restructuring programs and (v) any extraordinary non-recurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial condition and results of operations appearing in the Corporation's annual report to stockholders for the applicable year. Notwithstanding satisfaction of any completion of any Qualifying Performance Criteria, to the extent specified at the time of grant of an Award, the number of Shares, Stock Options, SARs, Stock Units or other benefits granted, issued, retainable and/or vested under an Award on account of satisfaction of such Qualifying Performance Criteria may be reduced by the Committee on the basis of such further considerations as the Committee in its sole discretion shall determine.

(c) Dividends. Unless otherwise provided by the Committee, no adjustment shall be made in Shares issuable under Awards on account of cash dividends that may be paid or other rights that may be issued to the holders of Shares prior to their issuance under any Award. The Committee shall specify whether dividends or dividend equivalent amounts shall be paid to any Participant with respect to the Shares subject to any Award that have not vested or been issued or that are subject to any restrictions or conditions on the record date for dividends.

(d) Documents Evidencing Awards. The Committee shall, subject to applicable law, determine the date an Award is deemed to be granted. The Committee or, except to the extent prohibited under applicable law, its delegate(s) may establish the terms of agreements or other documents evidencing Awards under this Plan and may, but need not, require as a condition to any such agreement's or document's effectiveness that such agreement or document be executed by the Participant, including by electronic signature or other electronic indication of acceptance, and that such Participant agree to such further terms and conditions as specified in such agreement or document. The grant of an Award under this Plan shall not confer any rights upon the Participant holding such Award other than such terms, and subject to such conditions, as are specified in this Plan as being applicable to such type of Award (or to all Awards) or as are expressly set forth in the agreement or other document evidencing such Award.

(e) Additional Restrictions on Awards. Either at the time an Award is granted or by subsequent action, the Committee may, but need not, impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any resales by a Participant or other subsequent transfers by a Participant of any Shares issued under an Award, including without limitation (a) restrictions under an insider trading policy, (b) restrictions designed to delay and/or coordinate the timing and manner of sales by the Participant or Participants, and (c) restrictions as to the use of a specified brokerage firm for such resales or other transfers.

(f) Subsidiary Awards. In the case of a grant of an Award to any Participant employed by a Subsidiary, such grant may, if the Committee so directs, be implemented by Intel issuing any subject Shares to the Subsidiary, for such lawful consideration as the Committee may determine, upon the condition or understanding that the Subsidiary will transfer the Shares to the Participant in accordance with the terms of the Award specified by the Committee pursuant to the provisions of the Plan. Notwithstanding any other provision hereof, such Award may be issued by and in the name of the Subsidiary and shall be deemed granted on such date as the Committee shall determine.

11. ADJUSTMENT OF AND CHANGES IN THE COMMON STOCK

(a) The existence of outstanding Awards shall not affect in any way the right or power of the Corporation or its shareholders to make or authorize any or all adjustments, recapitalizations, reorganizations, exchanges, or other changes in the Corporation’s capital structure or its business, or any merger or consolidation of the Corporation or any issuance of Shares or other securities or subscription rights thereto, or any issuance of bonds, debentures, preferred or prior preference stock ahead of or affecting the Shares or other securities of the Corporation or the rights thereof, or the dissolution or liquidation of the Corporation, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise. Further, except as expressly provided herein or by the Committee, (i) the issuance by the Corporation of shares of stock or any class of securities convertible into shares of stock of any class, for cash, property, labor or services, upon direct sale, upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Corporation convertible into such shares or other securities, (ii) the payment of a dividend in property other than Shares, or (iii) the occurrence of any similar transaction, and in any case whether or not for fair value, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of Shares subject to Stock Options or other Awards theretofore granted or the purchase price per Share, unless the Committee shall determine, in its sole discretion, that an adjustment is necessary or appropriate.

(b) If the outstanding Shares or other securities of the Corporation, or both, for which the Award is then exercisable or as to which the Award is to be settled shall at any time be changed or exchanged by declaration of a stock dividend, stock split, combination of shares, extraordinary dividend of cash and/or assets, recapitalization, reorganization or any similar event affecting the Shares or other securities of the Corporation, the Committee may appropriately and equitably adjust the number and kind of Shares or other securities which are subject to this Plan or subject to any Awards theretofore granted, and the exercise or settlement prices of such Awards, so as to maintain the proportionate number of Shares or other securities without changing the aggregate exercise or settlement price.

(c) No right to purchase fractional Shares shall result from any adjustment in Stock Options or SARs pursuant to this Section 11. In case of any such adjustment, the Shares subject to the Stock Option or SAR shall be rounded down to the nearest whole share.

(d) Any other provision hereof to the contrary notwithstanding (except Section 11(a)), in the event Intel is a party to a merger or other reorganization, outstanding Awards shall be subject to the agreement of merger or reorganization. Such agreement may provide, without limitation, for the assumption of outstanding Awards by the surviving corporation or its parent, for their continuation by Intel (if Intel is a surviving corporation), for accelerated vesting and accelerated expiration, or for settlement in cash.

12. LISTING OR QUALIFICATION OF COMMON STOCK

In the event that the Board of Directors determines in its discretion that the listing or qualification of the Shares available for issuance under the Plan on any securities exchange or quotation or trading system or under any applicable law or governmental regulation is necessary as a condition to the issuance of such Shares, a Stock Option or SAR may not be exercised in whole or in part and a Restricted Stock or Stock Unit Award shall not vest unless such listing, qualification, consent or approval has been unconditionally obtained.

13. TERMINATION OR AMENDMENT OF THE PLAN

The Board of Directors may amend, alter or discontinue the Plan and the Board or the Committee may to the extent permitted by the Plan amend any agreement or other document evidencing an Award made under this Plan, provided, however, that the Corporation shall submit for stockholder approval any amendment (other than an amendment pursuant to the adjustment provisions of Section 11) required to be submitted for stockholder approval by NASDAQ or that otherwise would:

(a) increase the maximum number of Shares for which Awards may be granted under this Plan;

(b) reduce the price at which Stock Options may be granted below the price provided for in Section 8(a);

(c) reduce the option price of outstanding Stock Options;

(d) extend the term of this Plan;

(e) change the class of persons eligible to be Participants; or

(f) increase the limits in Section 6.

In addition, no such amendment or alteration shall be made which would impair the rights of any Participant, without such Participant’s consent, under any Award theretofore granted, provided that no such consent shall be required with respect to any amendment or alteration if the Committee determines in its sole discretion that such amendment or alteration either (i) is required or advisable in order for the Corporation, the Plan or the Award to satisfy any law or regulation or to meet the requirements of any accounting standard, or (ii) is not reasonably likely to significantly diminish the benefits provided under such Award, or that any such diminishment has been adequately compensated.

14. WITHHOLDING

To the extent required by applicable federal, state, local or foreign law, the Committee may and/or a Participant shall make arrangements satisfactory to the Corporation for the satisfaction of any withholding tax obligations that arise with respect to any Stock Option, SAR, Restricted Stock or Stock Unit Award, or any sale of Shares. The Corporation shall not be required to issue Shares or to recognize the disposition of such Shares until such obligations are satisfied. To the extent permitted or required by the Committee, these obligations may or shall be satisfied by having the Corporation withhold a portion of the Shares of stock that otherwise would be issued to a Participant under such Award or by tendering Shares previously acquired by the Participant.

15. GENERAL PROVISIONS

(a) Employment At Will. Neither the Plan nor the grant of any Award nor any action by the Corporation, any Subsidiary or the Committee shall be held or construed to confer upon any person any right to be continued in the employ of the Corporation or a Subsidiary. The Corporation and each Subsidiary expressly reserve the right to discharge, without liability but subject to his or her rights under this Plan, any Participant whenever in the sole discretion of the Corporation or a Subsidiary, as the case may be, its interest may so require.

(b) Governing Law. This Plan and any agreements or other documents hereunder shall be interpreted and construed in accordance with the laws of the State of Delaware and applicable federal law. The Committee may provide that any dispute as to any Award shall be presented and determined in such forum as the Committee may specify, including through binding arbitration. Any reference in this Plan or in the agreement or other document evidencing any Award to a provision of law or to a rule or regulation shall be deemed to include any successor law, rule or regulation of similar effect or applicability.

(c) Unfunded Plan. Insofar as it provides for Awards, the Plan shall be unfunded. Although bookkeeping accounts may be established with respect to Participants who are granted Awards under this Plan, any such accounts will be used merely as a bookkeeping convenience. The Corporation shall not be required to segregate any assets which may at any time be represented by Awards, nor shall this Plan be construed as providing for such segregation, nor shall the Corporation or the Committee be deemed to be a trustee of stock or cash to be awarded under the Plan.

16. NON-EXCLUSIVITY OF PLAN

Neither the adoption of this Plan by the Board of Directors nor the submission of this Plan to the shareholders of the Corporation for approval shall be construed as creating any limitations on the power of the Board of Directors or the Committee to adopt such other incentive arrangements as either may deem desirable, including without limitation, the granting of stock options, stock appreciation rights, restricted stock or stock units otherwise than under this Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

17. COMPLIANCE WITH OTHER LAWS AND REGULATIONS

This Plan, the grant and exercise of Awards thereunder, and the obligation of the Corporation to sell, issue or deliver Shares under such Awards, shall be subject to all applicable federal, state and local laws, rules and regulations and to such approvals by any governmental or regulatory agency as may be required. The Corporation shall not be required to register in a Participant's name or deliver any Shares prior to the completion of any registration or qualification of such Shares under any federal, state or local law or any ruling or regulation of any government body which the Committee shall determine to be necessary or advisable. To the extent the Corporation is unable to or the Committee deems it infeasible to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Corporation's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, the Corporation shall be relieved of any liability with respect to the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained. No Stock Option shall be exercisable and no Shares shall be issued and/or transferable under any other Award unless a registration statement with respect to the Shares underlying such Stock Option is effective and current or the Corporation has determined that such registration is unnecessary.

18. LIABILITY OF CORPORATION

The Corporation shall not be liable to a Participant or other persons as to: (a) the non-issuance or sale of Shares as to which the Corporation has been unable to obtain from any regulatory body having jurisdiction the authority deemed by the Corporation's counsel to be necessary to the lawful issuance and sale of any Shares hereunder; and (b) any tax consequence expected, but not realized, by any Participant or other person due to the receipt, exercise or settlement of any Stock Option or other Award granted hereunder.

Exhibit 10.4

INTEL CORPORATION

NON-EMPLOYEE DIRECTOR

NONQUALIFIED STOCK OPTION AGREEMENT

UNDER THE 2004 EQUITY INCENTIVE PLAN

1. TERMS OF OPTION

This Nonqualified Stock Option Agreement (this “Agreement”), the Notice of Grant of Stock Options delivered herewith (the “Notice of Grant”) and the Intel Corporation 2004 Equity Incentive Plan (the “2004 Plan”), as such may be amended from time to time, set forth the terms of your option identified in the Notice of Grant.

2. NONQUALIFIED STOCK OPTION

This option is not intended to be an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”) and will be interpreted accordingly.

3. OPTION PRICE

The exercise price of this option (the “option price”) is 100% of the market value of the common stock of Intel Corporation (“Intel”), $.001 par value (the “Common Stock”), on the date of grant, as specified in the Notice of Grant. “Market value” means the average of the highest and lowest sales prices of the Common Stock as reported by NASDAQ.

4. TERM OF OPTION AND EXERCISE OF OPTION

This option shall be fully exercisable on and after one year from the date of grant, subject to termination or acceleration as provided in this Agreement. After the option has vested, you may exercise the option to purchase up to the number of shares of the Common Stock set forth in the Notice of Grant (to the extent that the option has not been previously exercised and subject only to requirements of this Agreement, the Notice of Grant and the 2004 Plan). Notwithstanding anything to the contrary in Sections 5 through 8 hereof, no part of the option may be exercised after seven (7) years from the date of grant.

The process for exercising the option (or any part thereof) is governed by this Agreement, the Notice of Grant and the 2004 Plan and by your agreements with Intel's stock plan administrator. Exercises of stock options will be processed as soon as practicable. To the extent permitted by applicable law, the option price may be paid (a) in cash, (b) by arrangement with Intel's stock plan administrator which is acceptable to Intel where payment of the option price is made pursuant to an irrevocable direction to the broker to deliver all or part of the proceeds from the sale of the shares of the Common Stock issuable under the option to Intel, or (c) by delivery of any other lawful consideration approved in advance by the Committee of the Board of Directors of Intel established pursuant to the 2004 Plan (the "Committee"), or (d) in any combination of the foregoing. Fractional shares may not be exercised. Shares of the Common Stock will be issued as soon as practical. You will have the rights of a stockholder only after the shares of the Common Stock have been issued. For administrative or other reasons, Intel may from time to time suspend the ability to exercise options for limited periods of time.

Notwithstanding the above, Intel shall not be obligated to deliver any shares of the Common Stock during any period when Intel determines that the exercisability of the option or the delivery of shares hereunder would violate any federal, state or other applicable laws.

5. TERMINATION OF SERVICE AS DIRECTOR

Except as expressly provided otherwise in this Agreement, if your service as a member of Intel's Board of Directors terminates for any reason other than death, Disablement (defined below), or Retirement (defined below), you may at any time prior to ninety (90) calendar days from the date of such termination of service exercise this option to the extent it was exercisable on the date of termination. The option shall terminate at the close of business on the 90th day to the extent that it is unexercised.

6. DEATH

Except as expressly provided otherwise in this Agreement, if you die during your term of service as a director, the executor of your will, administrator of your estate or any successor trustee of a grantor trust may exercise the option at any time prior to 365 days from the date of death. The number of shares of the Common Stock that may be acquired under the option upon exercise by the estate or beneficiary shall equal the total number of shares of Common Stock subject to the option, whether or not exercisable on the date of death, reduced by the number of shares of Common Stock (if any) previously issued under the option.

Except as expressly provided otherwise in this Agreement, if you die prior to ninety (90) days after termination of your service as a member of Intel's Board of

Directors, the executor of your will or administrator of your estate may exercise the option at any time prior to 365 days from the date of termination of your service as a director to the extent that it was exercisable on the date of termination.

The option shall terminate at the close of business on the applicable expiration date described in this Section 6, to the extent that it is unexercised.

7. DISABILITY

Except as expressly provided otherwise in this Agreement, if your service as a member of Intel’s Board of Directors terminates due to your Disablement, you may exercise the option, whether or not the option was exercisable on the date of termination, up to 365 days from the date of termination. At the close of business on the 365th day from the date of termination of service, the option shall terminate to the extent that it is unexercised. For purposes of this Agreement, “Disablement” means a physical condition arising from an illness or injury, which renders an individual incapable of performing work in any occupation. The determination as to an individual’s Disablement shall be made in accordance with the standards and procedures of the then-current Long Term Disability Plan maintained by Intel and shall be conclusive on all of the parties.

8. RETIREMENT

If you retire from service as a member of Intel’s Board of Directors at or after age 60 (“Retirement”), you may exercise the option at any time prior to 365 days from the date of your Retirement, whether or not it was exercisable as of the date of your Retirement. At the close of business on the 365th day from your date of Retirement, the option shall terminate to the extent that it is unexercised.

9. INCOME TAXES WITHHOLDING

Nonqualified stock options are taxable upon exercise. To the extent required by applicable federal, state or other law, you shall make arrangements satisfactory to Intel for the satisfaction of any withholding tax obligations that arise by reason of an option exercise and, if applicable, any sale of shares of the Common Stock. Intel shall not be required to issue shares of the Common Stock or to recognize any purported transfer of shares of the Common Stock until such obligations are satisfied. The Committee may permit these obligations to be satisfied by having Intel withhold a portion of the shares of the Common Stock that otherwise would be issued to you upon exercise of the option, or to the extent permitted by the Committee, by tendering shares of the Common Stock previously acquired.

10. NON-TRANSFERABILITY OF OPTION

Unless otherwise provided by Intel's Board of Directors, each option shall be transferable only

(a) pursuant to your will or upon your death to your beneficiaries, or

(b) by gift to your Immediate Family (defined below), partnerships whose only partners are you or members of your Immediate Family, limited liability companies whose only shareholders are you or members of your Immediate Family, or trusts established solely for the benefit of you or members of your Immediate Family.

For purposes of this Agreement, "Immediate Family" is defined as your spouse or domestic partner, children, grandchildren, parents, or siblings.

With respect to transfers by gift, options are transferable only to the extent the options are exercisable at the time of transfer. Any purported assignment, transfer or encumbrance that does not qualify under subsections (a) and (b) above shall be void and unenforceable against the Corporation.

Any option transferred by you pursuant to this section shall not be transferable by the recipient except by will or the laws of descent and distribution.

The transferability of options is subject to any applicable laws of your country of residence.

11. AMENDMENTS

The 2004 Plan and the option may be amended or altered by the Board of Directors of Intel to the extent provided in the 2004 Plan.

12. THE 2004 PLAN AND OTHER AGREEMENTS; OTHER MATTERS

(a) The provisions of this Agreement and the 2004 Plan are incorporated into the Notice of Grant by reference. Certain capitalized terms used in this Agreement are defined in the 2004 Plan.

This Agreement, the Notice of Grant and the 2004 Plan constitute the entire understanding between you and Intel regarding the option. Any prior agreements, commitments or negotiations concerning the option are superseded.

(b) To the extent that the option refers to the Common Stock of Intel, and as required by the laws of your residence, only authorized but unissued shares thereof shall be utilized for delivery upon exercise by the holder in accord with the terms hereof.

(c) Because this Agreement relates to terms and conditions under which you may purchase Common Stock of Intel, a Delaware corporation, an essential term of this Agreement is that it shall be governed by the laws of the State of Delaware, without regard to choice of law principles of Delaware or other jurisdictions. The Committee may provide that any dispute as to this Agreement shall be presented and determined in such forum as the Committee may specify, including through binding arbitration.

INTEL CORPORATION
2004 EQUITY INCENTIVE PLAN

STANDARD TERMS AND CONDITIONS RELATING TO NONQUALIFIED STOCK OPTIONS GRANTED ON AND AFTER MAY 19, 2004 UNDER THE INTEL CORPORATION 2004 EQUITY INCENTIVE PLAN (other than grants made under the SOP Plus or ELTSOP programs)

1. TERMS OF OPTION

The following standard terms and conditions ("Standard Terms") apply to Nonqualified Stock Options granted to U.S. employees under the Intel Corporation 2004 Equity Incentive Plan (the "2004 Plan") (other than grants made under the SOP Plus or ELTSOP programs).

2. NONQUALIFIED STOCK OPTION

The option is not intended to be an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code") and will be interpreted accordingly.

3. OPTION PRICE

The exercise price of the option (the "option price") is 100% of the market value of the common stock of Intel Corporation ("Intel" or the "Corporation"), $.001 par value (the "Common Stock"), on the date of grant, as specified in the Notice of Grant. "Market value" means the average of the highest and lowest sales prices of the Common Stock as reported by NASDAQ.

4. TERM OF OPTION AND EXERCISE OF OPTION

To the extent the option has become exercisable (vested) during the periods indicated in the Notice of Grant and has not been previously exercised, and subject to termination or acceleration as provided in these Standard Terms and the requirements of these Standard Terms, the Notice of Grant and the 2004 Plan, you may exercise the option to purchase up to the number of shares of the Common Stock set forth in the Notice of Grant. Notwithstanding anything to the contrary in Section 5 or Sections 7 through 10 hereof, no part of the option may be exercised after seven (7) years from the date of grant.

The process for exercising the option (or any part thereof) is governed by these Standard Terms, the Notice of Grant, the 2004 Plan and your agreements with Intel's stock plan administrator. Exercises of stock options will be processed as soon as practicable. The option price may be paid (a) in cash, (b) by arrangement with Intel's stock plan administrator which is acceptable to Intel where payment of the option price is made pursuant to an irrevocable direction to the broker to deliver all or part of the proceeds from the sale of the shares of the Common Stock issuable under the option to Intel, (c) by delivery of any other lawful consideration approved in advance by the Committee of the Board of Directors of Intel established pursuant to the 2004 Plan (the "Committee") or its delegate, or (d) in any combination of the foregoing. Fractional shares may not be exercised. Shares of the Common Stock will be issued as soon as practicable. You will have the rights of a stockholder only after the shares of the Common Stock have been issued. For administrative or other reasons, Intel may from time to time suspend the ability of employees to exercise options for limited periods of time.

Notwithstanding the above, Intel shall not be obligated to deliver any shares of the Common Stock during any period when Intel determines that the exercisability of the option or the delivery of shares hereunder would violate any federal, state or other applicable laws.

Notwithstanding anything to the contrary in these Standard Terms or the applicable Notice of Grant, Intel may reduce your unvested options if you change classification from a full-time employee to a part-time employee.

IF AN EXPIRATION DATE DESCRIBED HEREIN FALLS ON A WEEKDAY, YOU MUST EXERCISE YOUR OPTIONS BEFORE 3:45 P.M. NEW YORK TIME ON THE EXPIRATION DATE.

IF AN EXPIRATION DATE DESCRIBED HEREIN FALLS ON A WEEKEND OR ANY OTHER DAY ON WHICH THE NEW YORK STOCK EXCHANGE ("NYSE") IS NOT OPEN, YOU MUST EXERCISE YOUR OPTIONS BEFORE 3:45 P.M. NEW YORK TIME ON THE LAST NYSE BUSINESS DAY PRIOR TO THE EXPIRATION DATE.

5. LEAVES OF ABSENCE

(a) Except as expressly provided otherwise in this Agreement, if you take a personal leave of absence ("PLOA"), the option will be exercisable only to the extent and during the times specified in this Section 5:

(1) If the duration of the PLOA is 365 days or less, you may exercise any part of the option that vested prior to the commencement of the PLOA at any time during the PLOA. If the duration of the PLOA is greater than 365 days, any part of the option that had vested prior to the commencement of the PLOA and that has not been exercised will terminate on the 365^{th} day of the PLOA.

(2) If the duration of the PLOA is less than thirty (30) days:

a. The exercisability of any part of the option that would have vested during the PLOA shall be deferred until the first day that you return to work (i.e., the date that the PLOA is terminated); and

b. Any part of the option that had not vested at the commencement of the PLOA and would not have vested during the PLOA shall vest in accordance with the normal schedule indicated in the Notice of Grant and shall not be affected by the PLOA.

(3) If the duration of the PLOA equals or exceeds thirty (30) days, the exercisability of each part of the option scheduled to vest after commencement of the PLOA shall be deferred for a period of time equal to the duration of the PLOA. If you terminate employment after returning from the PLOA but prior to the end of such deferral period, you shall have no right to exercise any unvested portion of the option, except to the extent provided otherwise in Sections 8 through 10 hereof, and such option shall terminate as of the date that your employment terminates.

(4) If you terminate employment with the Corporation during a PLOA:

a. Any portions of the option that had vested prior to the commencement of the PLOA shall be exercisable in accordance with Sections 7 through 10 hereof, as applicable; and

b. Any portions of the option that had not vested prior to the commencement of the PLOA shall terminate, except to the extent provided otherwise in Sections 8 through 10 hereof.

(b) If you take an approved (i) medical (including a medical leave to care for your family, as described below), (ii) industrial, or (iii) military leave of absence ("LOA"), the option shall be unaffected by such LOA and will vest in accordance with the schedule set forth in the Notice of Grant. For purposes of this subsection, family care related medical leaves of absence are approved periods of time off from work for an employee to care for: (i) a spouse, parent, and, in Oregon only, parent-in-law; (ii) a child or legal dependent who has a serious health condition and, in Oregon only, to care for a child who has a non-serious medical condition that requires home care; or (iii) a newborn, newly-adopted child or newly-placed foster child.

6. SUSPENSION OR TERMINATION OF OPTION FOR MISCONDUCT

If you have allegedly committed an act of misconduct as defined in the 2004 Plan, including, but not limited to, embezzlement, fraud, dishonesty, unauthorized disclosure of trade secrets or confidential information, breach of fiduciary duty or nonpayment of an obligation owed to the Corporation, an Authorized Officer, as defined in the 2004 Plan, may suspend your right to exercise the option, pending a decision by the Committee (or Board of Directors, as the case may be) or an Authorized Officer to terminate the option. The option cannot be exercised during such suspension or after such termination.

7. TERMINATION OF EMPLOYMENT

Except as expressly provided otherwise in this Agreement, if your employment by the Corporation terminates for any reason, whether voluntarily or involuntarily, other than death, Disablement (defined below), Retirement (defined below) or discharge for misconduct, you may exercise any portion of the option that had vested on or prior to the date of termination at any time prior to ninety (90) days after the date of such termination. The option shall terminate on the 90th day to the extent that it is unexercised. All unvested stock options shall be cancelled on the date of employment termination, regardless of whether such employment termination is voluntary or involuntary.

For purposes of this Section 7, your employment is not deemed terminated if, prior to sixty (60) days after the date of termination from Intel or a Subsidiary, you are rehired by Intel or a Subsidiary on a basis that would make you eligible for future Intel stock option grants, nor would your transfer from Intel to any Subsidiary or from any one Subsidiary to another, or from a Subsidiary to Intel be deemed a termination of employment. Further, your employment with any partnership, joint venture or corporation not meeting the requirements of a Subsidiary in which Intel or a Subsidiary is a party shall be considered employment for purposes of this provision if either (a) the entity is designated by the Committee as a Subsidiary for purposes of this provision or (b) you are designated as an employee of a Subsidiary for purposes of this provision.

8. DEATH

Except as expressly provided otherwise in this Agreement, if you die while employed by the Corporation, the executor of your will, administrator of your estate or any successor trustee of a grantor trust may exercise the option, to the extent not previously exercised and whether or not vested on the date of death, at any time prior to 365 days from the date of death.

Except as expressly provided otherwise in this Agreement, if you die prior to ninety (90) days after terminating your employment with the Corporation, the executor of your will or administrator of your estate may exercise the option, to the extent not previously exercised and to the extent the option had vested on or prior to the date of your employment termination, at any time prior to 365 days from the date of your employment termination.

The option shall terminate on the applicable expiration date described in this Section 8, to the extent that it is unexercised.

9. DISABILITY

Except as expressly provided otherwise in this Agreement and at the discretion of the Committee or its delegate, following your termination of employment due to Disablement, you may exercise the option, to the extent not previously exercised and whether or not the option had vested on or prior to the date of employment termination, at any time prior to 365 days from the date of determination of your Disablement as described in this Section 9; provided, however, that while the claim of Disablement is pending, options that were unvested at termination of employment may not be exercised and options that were vested at termination of employment may be exercised only during the period set forth in Section 7 hereof. The option shall terminate on the 365th day from the date of determination of Disablement, to the extent that it is unexercised. For purposes of this Agreement, “Disablement” means a physical condition arising from an illness or injury, which renders an individual incapable of performing work in any occupation. The determination as to an individual’s Disablement shall be made in accordance with the standards and procedures of the then-current Long Term Disability Plan maintained by the Corporation or the Subsidiary that employs you (or if such Subsidiary has no such plan, in accordance with the Intel Long Term Disability Plan) and shall be conclusive on all of the parties.

10. RETIREMENT

For purposes of this Agreement, “Retirement” shall mean either Standard Retirement (as defined below) or the Rule of 75 (as defined below). Following your Retirement, the vesting of the option, to the extent that it had not vested on or prior to the date of your Retirement, shall be accelerated as follows:

(a) If you retire at or after age 60 (“Standard Retirement”), you will receive one year of additional vesting from your date of Retirement for every five (5) years that you have been employed by the Corporation (measured in complete, whole years). No vesting acceleration shall occur for any periods of employment of less than five (5) years; or

(b) If, when you terminate employment with Intel, your age plus years of service (in each case measured in complete, whole years) equals or exceeds 75 (“Rule of 75”), you will receive accelerated vesting of any portion of the option that would have vested prior to 365 days from the date of your Retirement.

You will receive vesting acceleration pursuant to either Standard Retirement or the Rule of 75, but not both. Except as expressly provided otherwise in this Agreement, following your Retirement from the Corporation, you may exercise the option at any time prior to 365 days from the date of your Retirement, to the extent that it had vested as of the date of your Retirement or to the extent that vesting of the option is accelerated pursuant to this Section 10. The option shall terminate on the 365 th day from your date of Retirement, to the extent that it is unexercised.

11. INCOME TAXES WITHHOLDING

Nonqualified stock options are taxable upon exercise. To the extent required by applicable federal, state or other law, you shall make arrangements satisfactory to Intel for the satisfaction of any withholding tax obligations that arise by reason of an option exercise and, if applicable, any sale of shares of the Common Stock. Intel shall not be required to issue shares of the Common Stock or to recognize any purported transfer of shares of the Common Stock until such obligations are satisfied. The Committee may permit these obligations to be satisfied by having Intel withhold a portion of the shares of the Common Stock that otherwise would be issued to you upon exercise of the option, or to the extent permitted by the Committee, by tendering shares of the Common Stock previously acquired.

12. TRANSFERABILITY OF OPTION

Unless otherwise provided by the Committee, each option shall be transferable only

(a) pursuant to your will or upon your death to your beneficiaries, or

(b) by gift to your Immediate Family (defined below), partnerships whose only partners are you or members of your Immediate Family, limited liability companies whose only shareholders are you or members of your Immediate Family, or trusts established solely for the benefit of you or members of your Immediate Family.

For purposes of this Agreement, “Immediate Family” is defined as your spouse or domestic partner, children, grandchildren, parents, or siblings.

With respect to transfers by gift, options are transferable only to the extent the options are vested at the time of transfer. Any purported assignment, transfer or encumbrance that does not qualify under subsections (a) and (b) above shall be void and unenforceable against the Corporation.

Any option transferred by you pursuant to this section shall not be transferable by the recipient except by will or the laws of descent and distribution.

The transferability of options is subject to any applicable laws of your country of residence or employment.

13. DISPUTES

The Committee or its delegate shall finally and conclusively determine any disagreement concerning your option.

14. AMENDMENTS

The 2004 Plan and the option may be amended or altered by the Committee or the Board of Directors of Intel to the extent provided in the 2004 Plan.

15. THE 2004 PLAN AND OTHER AGREEMENTS; OTHER MATTERS

(a) The provisions of these Standard Terms and the 2004 Plan are incorporated into the Notice of Grant by reference. Certain capitalized terms used in these Standard Terms are defined in the 2004 Plan.

These Standard Terms, the Notice of Grant and the 2004 Plan constitute the entire understanding between you and the Corporation regarding the option. Any prior agreements, commitments or negotiations concerning the option are superseded.

The grant of an option to an employee in any one year, or at any time, does not obligate Intel or any Subsidiary to make a grant in any future year or in any given amount and should not create an expectation that Intel or any Subsidiary might make a grant in any future year or in any given amount.

(b) To the extent that the option refers to the Common Stock of Intel Corporation, and as required by the laws of your country of residence or employment, only authorized but unissued shares thereof shall be utilized for delivery upon exercise by the holder in accord with the terms hereof.

(c) Because this Agreement relates to terms and conditions under which you may purchase Common Stock of Intel, a Delaware corporation, an essential term of this Agreement is that it shall be governed by the laws of the State of Delaware, without regard to choice of law principles of Delaware or other jurisdictions. Any action, suit, or proceeding relating to this Agreement or the option granted hereunder shall be brought in the state or federal courts of competent jurisdiction in the State of California.

INTEL CORPORATION

NONQUALIFIED STOCK OPTION AGREEMENT

UNDER THE 2004 EQUITY INCENTIVE PLAN

1. TERMS OF OPTION

This Nonqualified Stock Option Agreement (this “Agreement”), the Notice of Grant of Stock Options delivered herewith (the “Notice of Grant”) and the Intel Corporation 2004 Equity Incentive Plan (the “2004 Plan”), as such may be amended from time to time, set forth the terms of your option identified in the Notice of Grant. As used herein, the “Corporation” shall mean Intel Corporation and its Subsidiaries.

2. NONQUALIFIED STOCK OPTION

This option is not intended to be an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”) and will be interpreted accordingly.

3. OPTION PRICE

The exercise price of this option (the “option price”) is 100% of the market value of the common stock of Intel Corporation (“Intel”), $.001 par value (the “Common Stock”), on the date of grant, as specified in the Notice of Grant. “Market value” means the average of the highest and lowest sales prices of the Common Stock as reported by NASDAQ.

4. TERM OF OPTION AND EXERCISE OF OPTION

To the extent the option has become exercisable (vested) during the periods indicated in the Notice of Grant and has not been previously exercised, and subject to termination or acceleration as provided in this Agreement and the requirements of this Agreement, the Notice of Grant and the 2004 Plan, you may exercise the option to purchase up to the number of shares of the Common Stock set forth in the Notice of Grant. Notwithstanding anything to the contrary in Section 5 or Sections 7 through 10 hereof, no part of the option may be exercised after seven (7) years from the date of grant.

The process for exercising the option (or any part thereof) is governed by this Agreement, the Notice of Grant, the 2004 Plan and your agreements with Intel’s stock plan administrator. Exercises of stock options will be processed as soon as practicable. The option price may be paid (a) in cash, (b) by arrangement with Intel's stock plan administrator which is acceptable to Intel where payment of the option price is made pursuant to an irrevocable direction to the broker to deliver all or part of the proceeds from the sale of the shares of the Common Stock issuable under the option to Intel, (c) by delivery of any other lawful consideration approved in advance by the Committee of the Board of Directors of Intel established pursuant to the 2004 Plan (the "Committee") or its delegate, or (d) in any combination of the foregoing. Fractional shares may not be exercised. Shares of the Common Stock will be issued as soon as practicable. You will have the rights of a stockholder only after the shares of the Common Stock have been issued. For administrative or other reasons, Intel may from time to time suspend the ability of employees to exercise options for limited periods of time.

Notwithstanding the above, Intel shall not be obligated to deliver any shares of the Common Stock if such delivery is prohibited by the laws of the United States or your country of residence or employment. If such delivery is prohibited at the time that all or part of the option is exercised, then such exercise may be made only in accordance with Intel's "cashless exercise" procedure, to the extent permitted under the laws of the United States and your country of residence or employment.

Notwithstanding anything to the contrary in this Agreement or the applicable Notice of Grant, Intel may reduce your unvested options if you change classification from a full-time employee to a part-time employee.

5. LEAVES OF ABSENCE

(a) Except as expressly provided otherwise in this Agreement, if you take a personal leave of absence ("PLOA"), the option will be exercisable only to the extent and during the times specified in this Section 5:

(1) If the duration of the PLOA is 365 days or less, you may exercise any part of the option that vested prior to the commencement of the PLOA at any time during the PLOA. If the duration of the PLOA is greater than 365 days, any part of the option that had vested prior to the commencement of the PLOA and that has not been exercised will terminate on the 365^{th} day of the PLOA.

(2) If the duration of the PLOA is less than thirty (30) days:

a. The exercisability of any part of the option that would have vested during the PLOA shall be deferred until the first day that you return to work (i.e., the date that the PLOA is terminated); and

b. Any part of the option that had not vested at the commencement of the PLOA and would not have vested during the PLOA will vest in accordance with the normal schedule indicated in the Notice of Grant and shall not be affected by the PLOA.

(3) If the duration of the PLOA equals or exceeds thirty (30) days, the exercisability of each part of the option scheduled to vest after commencement of the PLOA shall be deferred for a period of time equal to the duration of the PLOA. If you terminate employment after returning from the PLOA but prior to the end of such deferral period, you shall have no right to exercise any unvested portion of the option, except to the extent provided otherwise in Sections 8 through 10 hereof, and such option shall terminate as of the date that your employment terminates.

(4) If you terminate employment with the Corporation during a PLOA:

a. Any portions of the option that had vested prior to the commencement of the PLOA shall be exercisable in accordance with Sections 7 through 10 hereof, as applicable; and

b. Any portions of the option that had not vested prior to the commencement of the PLOA shall terminate, except to the extent provided otherwise in Sections 8 through 10 hereof.

(b) If you take a medical, industrial or military leave of absence (“LOA”), the option shall be unaffected by such LOA and will vest in accordance with the schedule set forth in the Notice of Grant.

6. SUSPENSION OR TERMINATION OF OPTION FOR MISCONDUCT

If you have allegedly committed an act of misconduct as defined in the 2004 Plan, including, but not limited to, embezzlement, fraud, dishonesty, unauthorized disclosure of trade secrets or confidential information, breach of fiduciary duty or nonpayment of an obligation owed to the Corporation, an Authorized Officer, as defined in the 2004 Plan, may suspend your right to exercise the option, pending a decision by the Committee (or Board of Directors, as the case may be) or an Authorized Officer to terminate the option. The option cannot be exercised during such suspension or after such termination.

7. TERMINATION OF EMPLOYMENT

Except as expressly provided otherwise in this Agreement, if your employment by the Corporation terminates for any reason, whether voluntarily or involuntarily, other than death, Disablement (defined below), Retirement (defined below) or discharge for misconduct, you may exercise any portion of the option that had vested on or prior to the date of termination at any time prior to ninety (90) days after the date of such termination. The option shall terminate on the 90th day to the extent that it is unexercised. All unvested stock options shall be cancelled on the date of employment termination, regardless of whether such employment termination is voluntary or involuntary.

For purposes of this Section 7, your employment is not deemed terminated if, prior to sixty (60) days after the date of termination from the Corporation, you are rehired by Intel or a Subsidiary on a basis that would make you eligible for future Intel stock option grants, nor would your transfer from Intel to any Subsidiary or from any one Subsidiary to another, or from a Subsidiary to Intel be deemed a termination of employment. Further, your employment with any partnership, joint venture or corporation not meeting the requirements of a Subsidiary in which Intel or a Subsidiary is a party shall be considered employment for purposes of this provision if either (a) the entity is designated by the Committee as a Subsidiary for purposes of this provision or (b) you are designated as an employee of a Subsidiary for purposes of this provision.

8. DEATH

Except as expressly provided otherwise in this Agreement, if you die while employed by the Corporation, the executor of your will, administrator of your estate or any successor trustee of a grantor trust may exercise the option, to the extent not previously exercised and whether or not vested on the date of death, at any time prior to 365 days from the date of death.

Except as expressly provided otherwise in this Agreement, if you die prior to ninety (90) days after termination of your employment with the Corporation, the executor of your will or administrator of your estate may exercise the option, to the extent not previously exercised and to the extent the option had vested on or prior to the date of your employment termination, at any time prior to 365 days from the date of your employment termination.

The option shall terminate on the applicable expiration date described in this Section 8, to the extent that it is unexercised.

9. DISABILITY

Except as expressly provided otherwise in this Agreement and at the discretion of the Committee or its delegate, following your termination of employment due to Disablement, you may exercise the option, to the extent not previously exercised and whether or not the option had vested on or prior to the date of employment termination, at any time prior to 365 days from the date of determination of your Disablement as described in this Section 9; provided, however, that while the claim of Disablement is pending, options that were unvested at termination of employment may not be exercised and options that were vested at termination of employment may be exercised only during the period set forth in Section 7 hereof. The option shall terminate on the 365th day from the date of determination of Disablement, to the extent that it is unexercised. For purposes of this Agreement, “Disablement” means a physical condition arising from an illness or injury, which renders an individual incapable of performing work in any occupation. The determination as to an individual’s Disablement shall be made in accordance with the standards and procedures of the then-current Long Term Disability Plan maintained by the Subsidiary that employs you (or if such Subsidiary has no such plan, in accordance with the Intel Long Term Disability Plan) and shall be conclusive on all of the parties.

10. RETIREMENT

For purposes of this Agreement, “Retirement” shall mean either Standard Retirement (as defined below) or the Rule of 75 (as defined below). Following your Retirement, the vesting of the option, to the extent that it had not vested on or prior to the date of your Retirement, shall be accelerated as follows:

(a) If you retire at or after age 60 (“Standard Retirement”), you will receive one year of additional vesting from your date of Retirement for every five (5) years that you have been employed by the Corporation (measured in complete, whole years). No vesting acceleration shall occur for any periods of employment of less than five (5) years; or

(b) If, when you terminate employment with the Corporation, your age plus years of service (in each case measured in complete, whole years) equals or exceeds 75 (“Rule of 75”), you will receive accelerated vesting of any portion of the option that would have vested prior to 365 days from the date of your Retirement.

You will receive vesting acceleration pursuant to either Standard Retirement or the Rule of 75, but not both. Except as expressly provided otherwise in this Agreement, following your Retirement from the Corporation, you may exercise the option at any time prior to 365 days from the date of your Retirement, to the extent that it had vested as of the date of your Retirement or to the extent that vesting of the option is accelerated pursuant to this Section 10. The option shall terminate on the 365th day from your date of Retirement, to the extent that it is unexercised.

11. INCOME TAXES WITHHOLDING

You will be subject to taxation in accordance with the tax laws of the country where you are resident or employed. If you are an U.S. citizen or expatriate, you may also be subject to U.S. tax laws. To the extent required by applicable federal, state, local or foreign law, you shall make arrangements satisfactory to

Intel or the Subsidiary that employs you for the satisfaction of any withholding tax obligations that arise by reason of an option exercise or any sale of shares of the Common Stock. Intel shall not be required to issue shares of the Common Stock or to recognize any purported transfer of shares of the Common Stock until such obligations are satisfied. The Committee may permit these obligations to be satisfied by having Intel withhold a portion of the shares of the Common Stock that otherwise would be issued to you upon exercise of the option, or to the extent permitted by the Committee, by tendering shares of the Common Stock previously acquired.

12. NON-TRANSFERABILITY OF OPTION

You may not assign or transfer this option to anyone except pursuant to your will or upon your death to your beneficiaries. The transferability of options is subject to any applicable laws of your country of residence or employment.

13. DISPUTES

The Committee or its delegate shall finally and conclusively determine any disagreement concerning your option.

14. AMENDMENTS

The 2004 Plan and the option may be amended or altered by the Committee or the Board of Directors of Intel to the extent provided in the 2004 Plan.

15. THE 2004 PLAN AND OTHER AGREEMENTS; OTHER MATTERS

(a) The provisions of this Agreement and the 2004 Plan are incorporated into the Notice of Grant by reference. Certain capitalized terms used in this Agreement are defined in the 2004 Plan.

This Agreement, the Notice of Grant and the 2004 Plan constitute the entire understanding between you and the Corporation regarding the option. Any prior agreements, commitments or negotiations concerning the option are superseded.

The grant of an option to an employee in any one year, or at any time, does not obligate Intel or any Subsidiary to make a grant in any future year or in any given amount and should not create an expectation that Intel or any Subsidiary might make a grant in any future year or in any given amount.

(b) To the extent that the option refers to the Common Stock of Intel, and as required by the laws of your country of residence or employment, only authorized but unissued shares thereof shall be utilized for delivery upon exercise by the holder in accord with the terms hereof.

(c) Because this Agreement relates to terms and conditions under which you may purchase Common Stock of Intel, a Delaware corporation, an essential term of this Agreement is that it shall be governed by the laws of the State of Delaware, without regard to choice of law principles of Delaware or other jurisdictions. Any action, suit, or proceeding relating to this Agreement or the option granted hereunder shall be brought in the state or federal courts of competent jurisdiction in the State of California.

Exhibit 10.7

Today is MM/DD/YYYY, 00:00:00 AM EDT. Market Status: Open

Grant Acknowledgement Pending

Date	Number	Type	Price	Amount Granted	Expiration Date
MM/DD/YYYY	0000000	NQO	$0.00	0	MM/DD/YYYY

Congratulations. You were recently issued a grant from your Company's plan.
To read and print the terms and conditions of your grant agreement, select the link below.
Terms and Conditions

You may want to print a copy of these document(s) for your reference.

To receive an email confirmation of your grant acknowledgement, enter your email address and select Send. To receive an email confirmation at another address, enter a new e-mail below and select Send.

(e.g. jdoe@aol.com)

By selecting OK, you have acknowledged the issuance of 1 grant(s).

Notice for Non-U.S. Investors | Privacy Policy | Statement of Financial Condition
If you have any questions or comments, you may contact us at 1 (866) STK-INTC or, if outside the U.S. at +1 (201) 272-7537.

Exhibit 12.1

INTEL CORPORATION
STATEMENT SETTING FORTH THE COMPUTATION
OF RATIOS OF EARNINGS TO FIXED CHARGES

(in millions)

	Six Months Ended	
	June 26, 2004	June 28, 2003
Income before taxes	$ 4,964	$ 2,587
Add fixed charges	52	54
Income before taxes and fixed charges	$ 5,016	$ 2,641
Fixed charges:		
Interest	$ 33	$ 32
Estimated interest component of rental expense	19	22
Total	$ 52	$ 54
Ratio of earnings before taxes and fixed charges, to fixed charges	96	49

Exhibit 31.1

The following certification includes references to an evaluation of the effectiveness of the design and operation of the company's "disclosure controls and procedures" and to certain matters related to the company's "internal control over financial reporting." Item 4 of Part I of this Quarterly Report presents the conclusions of the Chief Executive Officer and the Chief Financial and Principal Accounting Officer about the effectiveness of the company's disclosure controls and procedures based on and as of the date of such evaluation (relating to Item 4 of the certification), and contains additional information concerning disclosures to the company's Audit Committee and independent auditors with regard to deficiencies in internal control over financial reporting and fraud and related matters (Item 5 of the certification).

CERTIFICATION

I, Craig R. Barrett, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Intel Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2004

By: /s/ Craig R. Barrett

Craig R. Barrett
Chief Executive Officer

Exhibit 31.2

The following certification includes references to an evaluation of the effectiveness of the design and operation of the company's "disclosure controls and procedures" and to certain matters related to the company's "internal control over financial reporting." Item 4 of Part I of this Quarterly Report presents the conclusions of the Chief Executive Officer and the Chief Financial and Principal Accounting Officer about the effectiveness of the company's disclosure controls and procedures based on and as of the date of such evaluation (relating to Item 4 of the certification), and contains additional information concerning disclosures to the company's Audit Committee and independent auditors with regard to deficiencies in internal control over financial reporting and fraud and related matters (Item 5 of the certification).

CERTIFICATION

I, Andy D. Bryant, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Intel Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2004

By: /s/ Andy D. Bryant

Andy D. Bryant
Executive Vice President, Chief Financial Officer and
Principal Accounting Officer

Exhibit 32.1

CERTIFICATION

Each of the undersigned hereby certifies, for the purposes of section 1350 of chapter 63 of title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Intel Corporation ("Intel"), that, to his knowledge, the Quarterly Report of Intel on Form 10-Q for the period ended June 26, 2004, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operation of Intel. This written statement is being furnished to the Securities and Exchange Commission as an exhibit to such Form 10-Q. A signed original of this statement has been provided to Intel and will be retained by Intel and furnished to the Securities and Exchange Commission or its staff upon request.

Date: July 30, 2004

By: /s/ Craig R. Barrett

Craig R. Barrett
Chief Executive Officer

Date: July 30, 2004

By: /s/ Andy D. Bryant

Andy D. Bryant
Executive Vice President,
Chief Financial Officer and
Principal Accounting Officer